



**Sentry Insurance a Mutual Company  
and subsidiaries and affiliates**

Consolidated statutory financial statements  
and supplemental schedules

December 31, 2019 and 2018  
(with independent auditors' report thereon)

**Sentry Insurance a Mutual Company  
and subsidiaries and affiliates**

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KPMG LLP  
Suite 1050  
833 East Michigan Street  
Milwaukee, WI 53202-5337

## Independent Auditors' Report

The Board of Directors  
Sentry Insurance a Mutual Company and Subsidiaries and Affiliates:

We have audited the accompanying consolidated financial statements of Sentry Insurance a Mutual Company and its subsidiaries and affiliates (collectively, the Company), which comprise the consolidated statutory balance sheets as of December 31, 2019 and 2018, and the related consolidated statutory statements of operations and changes in policyholders' surplus, and cash flow for the years then ended, and the related notes to the consolidated statutory financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with statutory accounting practices prescribed or permitted by the insurance departments of the states in which Sentry Insurance a Mutual Company and its subsidiaries and affiliates are domiciled. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles*

As described in note 1 to the consolidated financial statements, the financial statements are prepared by the Company using statutory accounting practices prescribed or permitted by the insurance departments of the states in which Sentry Insurance a Mutual Company and its subsidiaries and affiliates are domiciled, which is a basis of accounting other than U.S. generally accepted accounting principles. Accordingly, the consolidated financial statements are not intended to be presented in accordance with U.S. generally accepted accounting principles.

The effects on the consolidated financial statements of the variances between the statutory accounting practices described in note 2 and U.S. generally accepted accounting principles, although not reasonably determinable, are presumed to be material.

*Adverse Opinion on U.S. Generally Accepted Accounting Principles*

In our opinion, because of the significance of the variances between statutory accounting practices and U.S. generally accepted accounting principles discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the consolidated financial statements referred to above do not present fairly, in accordance with U.S. generally accepted accounting principles, the financial position of the Company as of December 31, 2019 and 2018, or the results of its operations or its cash flows for the years then ended.

*Opinion on Statutory Basis of Accounting*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and surplus of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flow for the years then ended, in accordance with statutory accounting practices prescribed or permitted by the insurance departments of the states in which Sentry Insurance a Mutual Company and its subsidiaries and affiliates are domiciled described in note 1.

*KPMG LLP*

Milwaukee, Wisconsin  
March 2, 2020

ANNUAL STATEMENT FOR THE YEAR 2019 OF THE SENTRY INSURANCE A MUTUAL COMPANY

SENTRY INSURANCE A MUTUAL COMPANY AND SUBSIDIARIES AND AFFILIATES

Consolidated Statutory Balance Sheets

December 31	2019	2018
(Millions)		
<b>Assets</b>		
Cash and investments:		
Bonds	\$ 10,079.2	\$ 9,397.4
Common stocks	1,421.3	1,164.4
Company occupied properties	164.8	154.1
Policy loans	10.7	11.2
Cash and short-term investments	76.7	63.3
Partnerships	1,281.5	1,262.3
Other	15.8	18.6
<b>Total cash and investments</b>	<b>13,050.0</b>	<b>12,071.3</b>
Receivables		
Insurance premiums and reinsurance	929.2	863.3
Interest and dividends	99.2	96.0
Federal income tax recoverable	—	5.4
Other	1.7	1.9
EDP equipment and operating software	8.5	13.1
Other assets	91.2	101.6
Net deferred tax asset	34.5	83.6
Separate account assets	5,538.3	4,416.0
<b>Total assets</b>	<b>\$ 19,752.6</b>	<b>\$ 17,652.2</b>

See accompanying notes to consolidated statutory financial statements.

ANNUAL STATEMENT FOR THE YEAR 2019 OF THE SENTRY INSURANCE A MUTUAL COMPANY

SENTRY INSURANCE A MUTUAL COMPANY AND SUBSIDIARIES AND AFFILIATES

Consolidated Statutory Balance Sheets

December 31	2019	2018
(Millions)		
<b>Liabilities</b>		
Property and casualty losses and loss expenses	\$ 3,624.0	\$ 3,378.6
Life and other future policy benefits	2,419.4	2,392.7
Accident and health unpaid claims and claim expenses	76.7	86.4
Unearned premiums	1,118.6	1,055.5
Other policyholder funds	11.1	10.9
Accounts payable and accrued expenses	858.2	819.4
Federal income tax payable	8.6	—
Other liabilities	97.5	44.9
Separate account liabilities	5,537.3	4,413.8
Total liabilities	13,751.4	12,202.2
<b>Policyholders' surplus</b>		
Unassigned surplus	6,001.2	5,450.0
Total policyholders' surplus	6,001.2	5,450.0
Total liabilities and policyholders' surplus	\$ 19,752.6	\$ 17,652.2

See accompanying notes to consolidated statutory financial statements.

ANNUAL STATEMENT FOR THE YEAR 2019 OF THE SENTRY INSURANCE A MUTUAL COMPANY

SENTRY INSURANCE A MUTUAL COMPANY AND SUBSIDIARIES AND AFFILIATES

Consolidated Statutory Statements of Operations  
and Changes in Policyholders' Surplus

Years ended December 31	2019	2018
(Millions)		
<b>Revenues</b>		
Premiums earned	\$ 3,108.9	\$ 2,955.4
Net investment income	541.0	551.9
<b>Total revenues</b>	<b>3,649.9</b>	<b>3,507.3</b>
<b>Expenses</b>		
Insurance claims and policyholders' benefits	2,535.7	2,461.5
Operating expenses	711.7	686.3
<b>Total expenses</b>	<b>3,247.4</b>	<b>3,147.8</b>
Income before net realized gains (losses)	402.5	359.5
Net realized losses, net of tax	(14.7)	(43.5)
Income from operations before income tax	387.8	316.0
Income tax expenses	63.5	65.4
<b>Net income</b>	<b>324.3</b>	<b>250.6</b>
<b>Policyholders' surplus</b>		
Balance January 1	5,450.0	5,173.9
Net income	324.3	250.6
Change in net unrealized capital gains and losses	245.8	(65.0)
Change in nonadmitted assets	36.7	(32.5)
Change in deferred income tax	21.6	4.8
Post-retirement benefit plans and other surplus changes	(77.2)	118.2
<b>Change in policyholders' surplus</b>	<b>551.2</b>	<b>276.1</b>
<b>Balance December 31</b>	<b>\$ 6,001.2</b>	<b>\$ 5,450.0</b>

See accompanying notes to consolidated statutory financial statements.

ANNUAL STATEMENT FOR THE YEAR 2019 OF THE SENTRY INSURANCE A MUTUAL COMPANY

SENTRY INSURANCE A MUTUAL COMPANY AND SUBSIDIARIES AND AFFILIATES

Consolidated Statutory Statements of Cash Flow

Years ended December 31 (Millions)	2019	2018
<b>Operating activities</b>		
Net premiums received	\$ 3,138.1	\$ 3,024.3
Net investment income received	564.1	589.3
Claims and policy benefits paid	(2,061.8)	(2,235.4)
Operating expenses paid	(881.9)	(825.4)
Income tax paid	(50.3)	(74.3)
Net cash provided by operating activities	708.2	478.5
<b>Investing activities</b>		
Proceeds from investments sold, matured, or repaid:		
Bonds	1,180.8	2,064.3
Stocks	578.6	414.3
Partnerships	144.2	163.4
Other	0.4	—
Cost of investments acquired:		
Bonds	(1,869.5)	(2,300.4)
Stocks	(489.8)	(329.3)
Partnerships	(192.2)	(229.2)
Other	(23.9)	(184.7)
Net cash utilized in investing activities	(671.4)	(401.6)
Other cash applied	(23.4)	(62.9)
Change in cash and short-term investments	13.4	14.0
Balance January 1	63.3	49.3
Balance December 31	\$ 76.7	\$ 63.3
<b>Non-cash transactions</b>		
Exchanges of bonds	\$ 74.7	\$ 101.2
Exchanges of stocks	\$ 27.4	\$ 25.6
Asset transfer to subsidiary	\$ 53.5	\$ —

See accompanying notes to consolidated statutory financial statements.

## Note 1 Principles of consolidation and basis of presentation

### Principles of consolidation

The consolidated statutory financial statements of the Sentry Group include the accounts of Sentry Insurance a Mutual Company (SIAMCO) and its wholly owned insurance subsidiaries including Sentry Lloyds of Texas (SLOT); Middlesex Insurance Company (MDX), which owns Patriot General Insurance Company (PG); Dairyland Insurance Company (DIC); Dairyland National Insurance Company (DNIC); Sentry Casualty Company (SCC); Sentry Select Insurance Company (SSIC); Viking Insurance Company of Wisconsin (VICW), which owns Peak Property and Casualty Insurance Corporation (Peak); Parker Centennial Assurance Company (PCAC); and Sentry Life Insurance Company (SLIC), which owns Sentry Life Insurance Company of New York (SLONY). SIAMCO shares common management with Dairyland County Mutual Insurance Company of Texas (DCM) and Florists' Mutual Insurance Company (FMIC), which owns Florists' Insurance Company (FIC). These entities are collectively referred to as the "Company." Additionally, FMIC and FIC are collectively referred to as "Florists."

The property and casualty companies, which include SIAMCO, SLOT, MDX, PG, DIC, DNIC, SCC, SSIC, VICW, Peak, DCM, FMIC, and FIC, write consumer and business insurance through various distribution channels primarily throughout the United States. SLIC, SLONY, and PCAC write life and health insurance, with such business consisting primarily of individual life insurance, individual annuities, and group annuities (401(k) and retirement products).

SIAMCO is the lead company in a reinsurance pooling agreement with certain of its property and casualty insurance subsidiaries and affiliates. Under this agreement, the participating property and casualty subsidiaries and affiliates cede all their net underwriting business to SIAMCO and then assume a percentage of the total net pool from SIAMCO. Activity and balances under this agreement are eliminated in consolidation.

Annual approval to file the Company's consolidated audited statutory financial statements, which include life and health insurance subsidiaries, in lieu of separate audited financial statements for SIAMCO and its property and casualty insurance subsidiaries and affiliates is obtained from the Commissioners of the insurance departments of the states of domicile for these entities. Approval is granted based upon each property and casualty insurer's participation in the reinsurance pooling arrangement.

All other material intercompany accounts and transactions have been eliminated in consolidation.

### Basis of presentation

SIAMCO and its insurance company subsidiaries and affiliates are required to prepare their statutory financial statements in accordance with the National Association of Insurance Commissioners (NAIC) *Accounting Practices and Procedures Manual (AP&P Manual)* subject to any deviations prescribed or permitted by the Commissioners in each insurer's domiciliary state. Prescribed statutory accounting practices are those practices that are incorporated directly or by reference in state laws, regulations, and general administrative rules applicable to all insurance enterprises domiciled in a particular state.

The Commissioners of the states in which SIAMCO and its insurance company subsidiaries and affiliates are domiciled have the right to permit other specific practices that may deviate from prescribed practices. The Office of the Commissioner of Insurance of the State of Wisconsin, the Illinois Department of Insurance, and the Texas Department of Insurance permitted SIAMCO and certain of its domestic insurance company subsidiaries and affiliates to present interest in Sentry Liquid Asset Partnership (SLAP), which owns several short-term securities and cash equivalents, as cash and short-term investments. The Company's interest in SLAP was \$172.0 million and \$132.5 million at December 31, 2019 and 2018, respectively. The NAIC's *AP&P Manual* would have required that the interest be displayed as other invested assets. Using this permitted practice caused no monetary effect on net income or statutory surplus for the years ended December 31, 2019 and 2018.

### Use of estimates

The preparation of financial statements in accordance with statutory accounting practices requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated statutory financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The most significant estimates include those used in determining the liability for property and casualty losses and loss expenses, other-than-temporary impairment losses on invested assets, pensions and other post-employment benefits, and accruals related to federal income taxes. Although variability is inherent in these estimates, the recorded amounts reflect management's best estimates based on facts and circumstances.

## Note 1 Principles of consolidation and basis of presentation (continued)

The Company, like many other insurers, is subject to a number of risks, many of which are outside of management's control. Management strives, however, to manage those risks while optimizing results. While not all inclusive, below is a list and discussion of the more significant business risks that the Company is subject to in its everyday operations:

**Market risk** is the risk that the Company is exposed to fluctuations in the fair market value of securities. The Company attempts to mitigate this risk through the active management of a diversified portfolio of securities.

**Significant business concentrations risk** is the risk that the Company has a material concentration of risk in a single unaffiliated entity, group, or geographic location. The Company believes it does not have a concentration of financial instruments in a single investee, industry, or geographic location. Also, the Company does not have a concentration of business transactions with a particular customer, lender, distribution source, market, or geographic area in which business is conducted that makes the Company overly vulnerable to a single event that could cause a severe impact on the Company's financial position.

## Note 2 Summary of significant statutory accounting policies

### Investments

Investment securities are valued in accordance with the NAIC as follows: Bonds are generally stated at amortized cost using the interest method, except bonds that are defined by the NAIC as non-investment grade, which are stated at the lower of amortized cost or fair value. Under U.S. generally accepted accounting principles (GAAP), bonds are categorized based on positive intent as “trading securities” (reported at fair value, with changes in fair value reported in net income), “available for sale” securities (reported at fair value, with changes in fair value reported in equity), or “held to maturity” securities (reported at amortized cost).

Common stocks are stated at fair value as required by NAIC and GAAP. Unrealized common stock investment gains and losses, net of deferred taxes, are credited or charged directly to unassigned policyholders’ surplus. Under GAAP, unrealized common stock gains and losses are reported in net income.

Partnerships include private equity, hedge funds, emerging markets, and real estate investments that take the form of limited partnerships or limited liability companies. Partnerships are carried at the Company’s equity in the value of the underlying net assets of the investment determined in accordance with GAAP. Distributions received from these investments are recorded as net investment income and undistributed earnings or losses, net of deferred taxes are recorded as unrealized capital gains or losses and credited or charged directly to unassigned policyholders’ surplus. Under GAAP, an entity’s share of undistributed earnings and losses of an investee qualifying under the equity method of accounting is recognized in net income.

Company-occupied properties and other real estate investments held for the production of income are stated at cost less accumulated depreciation. Real estate held for sale is carried at the lower of depreciated cost or fair value. Policy loans are carried at the aggregate of unpaid principal balances plus the accrued interest and are not in excess of the cash surrender value of the related policies. Short-term investments (primarily treasury bills and commercial paper with maturities less than one year) are carried at amortized cost, which approximates fair value.

As prescribed by the NAIC, an Asset Valuation Reserve (AVR) is maintained for life insurance company investments. The AVR mitigates fluctuations in the values of invested assets including bonds, common stocks, and other invested assets. Changes in the AVR are included in policyholders’ surplus. An AVR is not allowed for GAAP purposes.

Realized capital gains and losses on life insurance company bonds attributable to interest rate changes are deferred in the Interest Maintenance Reserve (IMR) net of tax. The IMR adjusts the impact of realized gains and losses on policyholders’ surplus by deferring realized gains and losses and amortizing them into investment income over the approximate remaining lives of the investments sold. An IMR is not allowed for GAAP purposes.

Realized gains and losses are determined on the specific-identification method and are presented in the accompanying consolidated statutory statements of operations net of federal income tax, after adjustments for the IMR. Realized investment gains and losses also include valuation adjustments for impairment of bonds, common stocks, Company-occupied properties and other real estate investments, and partnerships with a decline in value that management considers to be other-than-temporary. In determining whether impairments are other-than-temporary, the Company considers the size and duration of the excess of carrying value over fair value for common stocks and partnerships and the likelihood and expected timing of a recovery in value. For bonds, the credit quality of the issuer is also considered. For Company-occupied properties and other real estate investments, the excess of carrying value over an independent third-party assessment of fair value is considered. When it is determined that an investment is other-than-temporarily-impaired (OTTI), the Company writes the carrying value down to the fair value and recognizes a realized loss. For loan-backed and structured securities, the determination of OTTI is measured based on an estimate of the noninterest loss, which is recognized in operations. Such impairments result in the establishment of a new cost basis for these assets for book purposes.

Investment income is recorded when earned. Income on loan-backed and structured securities is recognized using an effective yield based on anticipated prepayments and the estimated economic life of the securities. When actual prepayments differ significantly from anticipated prepayments, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The net investment income earned on the securities is adjusted to the amount that would have existed had the new effective yield been applied since the acquisition of the securities.

Goodwill is calculated as the excess of the aggregate purchase price over the statutory capital and surplus of acquired subsidiaries. Goodwill, in aggregate, is limited to 10 percent of the acquiring entity’s capital stock and surplus as shown in its most recently filed statement adjusted to exclude any net positive goodwill, EDP

**Note 2 Summary of significant statutory accounting policies (continued)**

equipment, and net deferred tax assets. The remainder is reflected as a nonadmitted asset through a charge to surplus. Goodwill is amortized on a straight-line basis over ten years with a corresponding charge to surplus. Under GAAP, goodwill is not subject to the 10 percent threshold and is not amortized, but subject to periodic impairment testing.

**Separate accounts**

The life insurance subsidiaries issue group annuity contracts that include the option of placing deposits received in connection with these contracts in separate accounts. Life insurance subsidiaries have also issued variable annuity contracts and variable universal life contracts that required deposits to be placed in separate accounts. Sales of both products had ceased by the end of 2004. A separate account is an accounting entity segregated as a discrete operation within an insurance company. Separate account assets, consisting primarily of mutual funds, are reported at fair value and include the Company's interest in the separate accounts (seed money). Liabilities relating to contract holders are generally recorded at amounts equal to assets, but a contra-liability is recorded to adjust separate account liabilities to amounts computed using applicable statutory reserving tables. Separate account premium deposits, benefit expenses, and contract fee income for investment management and policy administration are reflected by the Company in the accompanying consolidated statutory statements of operations. Investment income and realized and unrealized capital gains and losses of the separate account assets accrue directly to contract holders and, therefore, are not included in the Company's consolidated statutory statements of operations. The Company's seed money investment, including appreciation or depreciation, is reflected in policyholders' surplus through recognition of surplus in the separate accounts.

**Nonadmitted assets**

For statutory accounting purposes, certain assets designated as "nonadmitted" (principally deferred income tax assets, prepaid pension deposits, prepaid expenses, certain receivables, and depreciated cost of application software, aircraft, and office furniture and equipment) have been excluded from the consolidated statutory balance sheets and charged to policyholders' surplus. GAAP would recognize such assets at the lower of depreciated cost or net realizable value. Nonadmitted assets were \$244.4 million and \$281.1 million at December 31, 2019 and 2018, respectively.

**Company-occupied properties**

Buildings are depreciated on a straight-line basis over estimated useful lives ranging from 20 to 50 years. Leasehold improvements are depreciated on a straight-line basis over the remaining term of the lease or estimated useful life, whichever is shorter.

**EDP equipment and software**

Electronic data processing equipment and capitalized software are depreciated on a straight-line basis over three to five years, depending on the class of property.

**Property and casualty losses and loss expenses**

The liabilities for losses are based upon management's best estimates of losses reported and losses incurred but not reported (IBNR), relating to direct and assumed premiums written; losses assumed from joint underwriting associations and assigned risk pools; and losses ceded to reinsurers. The liabilities for loss expenses are established by estimating future expenses to be incurred in the settlement of claims provided for in the liabilities for losses. Estimates of losses and loss expenses, net of salvage and subrogation, are continually reviewed. Changes to the estimates are reported without discounting in the current accounting periods. In establishing the liabilities for unpaid claims and claim adjustment expenses for asbestos-related illnesses and toxic waste cleanup, management considers facts currently known and the current state of the law and coverage litigation. Liabilities are recognized for known claims when sufficient information has been developed to indicate the involvement of a specific insurance policy, and management can reasonably estimate the Company's liability. In addition, liabilities have been established to cover additional exposures on both known and unasserted claims. These liabilities for losses and loss expenses are intended to represent the Company's ultimate liability for these items. Estimation of ultimate liabilities for these claims is usually difficult due to outstanding issues such as the verification of coverage, definition of an occurrence, determination of ultimate damages, and allocation of such damages to financially responsible parties. Therefore, any estimation of these liabilities is subject to significantly greater than normal variation and uncertainty.

## Note 2 Summary of significant statutory accounting policies (continued)

### Policy benefits

Liabilities for traditional life and limited-payment life contracts are computed using methods, mortality and morbidity tables, and interest rates that conform to the valuation laws of the states of Wisconsin and New York. The liabilities are primarily calculated on a modified reserve basis. The effect of using a modified reserve basis partially offsets the effect of immediately expensing acquisition costs by providing a policy benefit reserve increase in the first policy year that is less than the reserve increase in renewal years. Future policy benefits for life policies and contracts were primarily determined using the Commissioner's Reserve Valuation Method (CRVM) with interest rates ranging from zero to 6.00 percent. Additional statutory premium deficiency reserves are established when the valuation of net premium exceeds the gross premium.

Future policy benefits for annuity contracts, primarily for individual and group deferred annuities, were primarily determined using the Commissioner's Annuity Reserve Valuation Method (CARVM) with interest rates ranging from 2.25 percent to 11.25 percent. Reserves are established using the larger of the benefit amount calculated using CARVM or the cash surrender value.

Future accident and health group reserves consist predominantly of long-term disability reserves representing the present value of amounts not yet due calculated using standard disability tables and various interest rates.

Reserves for universal life-type, annuity, and deposit-type contracts are based on the contract account balance if future benefit payments in excess of the account balance are not guaranteed, or on the present value of future payments when such payments are guaranteed.

Under GAAP, traditional life reserves would be computed using mortality, withdrawal, interest rate, and expense assumptions that are based on Company experience, including a provision for adverse deviation. Reserves for universal life-type and investment contracts would generally be based on the contract account value.

### Revenue recognition

Property and casualty premiums written are recognized as earned ratably over the respective terms of the policy. Unearned premiums represent the portion of the premiums written that relate to the unexpired policy period, net of deductions for premiums ceded to reinsurers. All property and casualty written premium is recognized on the effective date of the policy. Certain commercial property and casualty policies are retrospectively rated; premiums under such policies are based upon the insureds' loss experience and are accrued as written premium. Premiums for annuity contracts are recognized when received. Premiums for traditional life insurance policies and limited payment contracts are recognized as income on the policy anniversary date. Amounts collected on policies that do not subject the Company to any risks arising from policyholder mortality or morbidity (deposit-type contracts), such as supplementary contracts without life contingencies, are recorded as increases to policyholder account balances. Revenues for these policies consist of net investment income and policy charges. Under GAAP, revenue on contracts without significant mortality or longevity risk (investment contracts) would be accounted for similar to deposit-contracts.

If unearned premiums and any future installment premiums on existing property and casualty and accident and health policies are determined to be insufficient to cover anticipated losses, loss adjustment expenses, and maintenance costs, a premium deficiency reserve is established. The Company anticipates investment income as a factor in the premium deficiency calculation.

### Acquisition costs

Costs directly related to the acquisition of insurance premiums, such as commissions and premium tax, are charged to operations as incurred. Under GAAP, certain acquisition costs would be capitalized and amortized over the policy period or expected life of the contract.

### Policy dividends

Provisions for dividends payable to policyholders are made when declared. Under GAAP, dividends for life insurance policies would be anticipated and may be considered as a planned contractual benefit when computing the value of future policy benefits. GAAP also requires that dividends for property and casualty policies be accrued as earned.

### Pension plan and other postretirement benefits

SIAMCO has defined benefit pension plans, which cover eligible employees. SIAMCO also provides certain healthcare, dental, and life insurance benefits to retired employees and their dependents. Effective January 1, 2010, employees

**Note 2 Summary of significant statutory accounting policies (continued)**

hired January 1, 2010, and after are not eligible to participate in either the defined pension plan or the postretirement healthcare and dental benefit plans.

The Company is required to recognize the funded status of the plans on its consolidated statutory balance sheets. When there is an excess of fair value of plan assets over benefit obligations, an asset is recorded and subsequently nonadmitted through a charge to surplus. Under GAAP, no charge to surplus is required. When benefit obligations exceed the fair value of plan assets, a liability is recorded on the Company's consolidated statutory balance sheets. Any amounts recorded in unassigned surplus are subsequently recognized as net periodic benefit cost. Actuarial gains and losses that arise in future periods and are not recognized as net periodic benefit cost in those periods will be recognized as increases or decreases to unassigned surplus, net of tax, as they arise. Actuarial gains and losses recognized in unassigned surplus are adjusted as they are subsequently recognized as a component of net periodic benefit cost.

**Reinsurance**

Reinsurance premiums, commission expense reimbursements, and reserves related to reinsured business ceded are accounted for on a basis consistent with that used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums and losses ceded have been reported as reductions of premiums earned and insurance claims in the accompanying consolidated statements of operations. Under GAAP, ceded unearned premium and ceded loss and loss adjustment expense reserves would be classified as assets, instead of as a reduction of the related liability.

Reinsurance premiums, commissions, and reserves related to reinsured business assumed are accounted for on a basis consistent with that used if the policies had been directly issued.

**Federal income tax**

SIAMCO files a consolidated federal income tax return with its subsidiaries. The method of allocation between the companies is subject to a written income tax allocation agreement, approved by the board of directors. Allocation is based upon separate return calculations with current credit for net losses. Federal income tax is based on taxable income currently payable.

FMIC files a consolidated federal income tax return with its subsidiaries. The method of allocation between the companies is subject to a written income tax allocation agreement, approved by the board of directors. Allocation is based upon separate return calculations with current credit for net losses. Federal income tax is based on taxable income currently payable.

In accordance with guidance specified in the NAIC's *AP&P Manual*, the Company utilizes a balance sheet approach of accounting for federal income taxes. Under this method, deferred tax assets, net of any nonadmitted portion and statutory valuation allowance, and deferred tax liabilities are recognized for the future tax consequences attributable to differences between the statutory financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates on which those temporary differences are expected to be recovered or settled. The change in deferred taxes is charged or credited directly to surplus. GAAP accounting requires these changes to be recorded through the income statement. The admissibility of net deferred tax assets recorded is subject to various limitations set forth in the NAIC's *AP&P Manual*.

**Comparability**

The discussion above highlights the significant differences between statutory accounting practices followed by the Company and GAAP. The aggregate effect of the foregoing variances from GAAP has not been determined but is presumed to be material. Certain 2018 amounts have been reclassified to conform to the 2019 presentation.

**Accounting standards not yet adopted**

Statement of Statutory Accounting Principles (SSAP) No. 22R, *Leases*, was substantively revised in 2019 with an effective date of January 1, 2020. The revisions update the accounting guidance for leases, including leveraged leases and sale-leaseback transactions. These revisions will have no financial statement impact.

### Note 3 Investments

#### Bonds

The carrying value, gross unrealized gains and losses, and estimated fair value of bonds as of December 31, 2019 and 2018 are as follows:

December 31, 2019 (Millions)	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U.S. government and government agencies	\$ 1,303.6	\$ 50.6	\$ 0.8	\$ 1,353.4
All other governments	57.5	0.4	0.2	57.7
States, territories, and possessions	58.4	2.6	0.4	60.6
Political subdivisions of states, territories, and possessions	432.9	33.5	0.1	466.3
Special revenue and special assessment	2,214.5	124.4	2.6	2,336.3
Industrial and miscellaneous	6,012.3	455.3	2.5	6,465.1
<b>Total</b>	<b>\$ 10,079.2</b>	<b>\$ 666.8</b>	<b>\$ 6.6</b>	<b>\$ 10,739.4</b>

December 31, 2018 (Millions)	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U.S. government and government agencies	\$ 1,322.3	\$ 15.8	\$ 18.1	\$ 1,320.0
All other governments	57.1	0.2	0.5	56.8
States, territories, and possessions	51.3	1.1	1.0	51.4
Political subdivisions of states, territories, and possessions	544.7	25.7	1.3	569.1
Special revenue and special assessment	1,940.0	58.0	16.6	1,981.4
Industrial and miscellaneous	5,482.0	157.3	86.6	5,552.7
<b>Total</b>	<b>\$ 9,397.4</b>	<b>\$ 258.1</b>	<b>\$ 124.1</b>	<b>\$ 9,531.4</b>

Included within the above tables are \$1,776.5 million and \$1,044.0 million of loan-backed and structured securities as of December 31, 2019 and 2018, respectively. Of this total, \$348.1 million at December 31, 2019 and \$351.5 million at December 31, 2018 were issued through or guaranteed by various U.S. government agencies. There was \$843.1 million and \$307.0 million with government guarantees reflected within the U.S. government line above at December 31, 2019 and 2018, respectively. The remainder of the securities are reflected in the industrial and miscellaneous lines.

The carrying value and estimated fair value of bonds and short-term investments as of December 31, 2019, by contractual maturity, are shown on the next page. Actual maturities may differ from contractual maturities because certain issuers have the right to call or prepay obligations with or without call or prepayment penalties. As most loan-backed and structured securities provide for periodic payments throughout their lives, they are listed separately.

**Note 3 Investments (continued)**

December 31, 2019 (Millions)	Carrying value	Estimated fair value
Due in one year or less (a)	\$ 469.4	\$ 470.7
Due after one year through five years	2,576.5	2,668.6
Due after five years through ten years	2,991.4	3,212.8
Due after ten years	2,458.4	2,739.1
Subtotal	8,495.7	9,091.2
Loan-backed and structured securities	1,776.5	1,841.2
Total	\$ 10,272.2	\$ 10,932.4

a) These amounts reflect a permitted practice. See Note 1, principles of consolidation and basis of presentation, for additional information.

The Company occasionally sells, redeems, or otherwise disposes of securities as a result of a callable feature (including make-whole call provisions). These liquidations may provide for a prepayment penalty or acceleration fee, which is reported as investment income when received. During 2019 and 2018, respectively, there were disposals of securities called reflecting 216 and 295 unique CUSIP numbers (the CUSIP number is assigned by the Committee on Uniform Securities Identification Procedures to uniquely identify the company or issuer and the type of security). The aggregate amount of investment income generated from prepayment penalties and/or acceleration fees was \$1.8 million and \$2.5 million for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2019, the Company held four securities that were self-assigned a 5GI designation, indicating the securities meet the qualifications of a 5GI designation, but have not been certified by the Securities Valuations Office (SVO). Total book adjusted carrying value of the four securities was \$9.8 million and total fair value was \$11.8 million. The Company held three 5GI securities with a total book adjusted carrying value of \$5.4 million and a total fair value of \$7.2 million as of December 31, 2018.

There are no securities purchased prior to January 1, 1994, where historical cash flows are not available. Prepayment assumptions for single-class and multi-class mortgage and asset-backed securities were obtained from data pricing services. The Company uses data pricing services, broker quotes, and the Capital Markets & Investment Analysis Office of the NAIC to determine fair value. The Company has no negative yield situations requiring a change from the retrospective to prospective methodology.

Gross gains and losses realized from the disposition of bonds, which are reflected in the accompanying consolidated statutory financial statements, are as follows:

Years ended December 31 (Millions)	2019	2018
Bond sales:		
Proceeds	\$ 385.6	\$ 1,195.0
Gross gains	3.8	8.9
Gross losses	0.9	6.6
Other bond dispositions:		
Proceeds	\$ 869.9	\$ 970.5
Gross gains	5.5	2.7
Gross losses	1.7	4.2

**Note 3 Investments (continued)****Common Stocks**

The cost of common stocks, which includes unmanaged index exchange traded funds, was \$891.1 million and \$903.2 million as of December 31, 2019 and 2018, respectively. On or before December 31, 2019, the Company sold \$0.2 million of common stock investments and reacquired them within 30 days at a cost of \$0.1 million.

**Partnerships**

Partnerships include investments in limited partnerships and limited liability companies at a cost of \$1,013.6 million and \$1,012.6 million as of December 31, 2019 and 2018, respectively.

Partnerships are carried at the Company's equity in value of the underlying net assets of the investment determined in accordance with GAAP. These investments generally reflect a reporting lag of 120 days or less, dependent upon the receipt of the reporting entity's financial information.

The carrying values of partnerships are as follows:

December 31, 2019	Carrying value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
(Millions)				
Private equity (a)	\$ 849.3	\$ 434.7	-	-
Hedge fund (b)	108.5	-	Annually	30-90 days
Real estate (c)	323.7	225.0	-	-
Total (d)	\$ 1,281.5	\$ 659.7		

December 31, 2018	Carrying value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
(Millions)				
Private equity (a)	\$ 827.7	\$ 387.1	-	-
Hedge fund (b)	102.5	-	Annually	30-95 days
Real estate (c)	332.1	289.5	-	-
Total (d)	\$ 1,262.3	\$ 676.6		

- (a) This category includes investments in private equity partnerships that invest primarily in venture companies, growth equity, leveraged buyouts, mezzanine debt, distressed turnaround situations, and fund of private equity funds. These investments are usually not redeemable. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets held by the partnerships. The life of these partnerships typically ranges from 10 to 15 years.
- (b) This category includes investments in hedge funds that invest in long and short common stocks, corporate bonds, government bonds, treasuries, commodities, currencies, derivatives and privately owned assets. Hedge fund managers have the ability to shift investments from value to growth strategies, from small to large capitalization common stocks, and from a net long position to a net short position.
- (c) This category includes investments in real estate and real asset partnerships. Investments have primarily been in U.S. commercial real estate. These investments are usually not redeemable. Distributions from each fund will be received as the underlying assets are liquidated. The life of these partnerships typically ranges from 8 to 12 years.
- (d) These amounts reflect a permitted practice. See Note 1, principles of consolidation and basis of presentation, for additional information.

### Note 3 Investments (continued)

#### Unrealized gains and losses

Gross unrealized gains and losses related to investments in bonds, common stocks, partnerships, and other invested assets are as follows:

Years ended December 31 (Millions)	2019		2018	
	Balance sheet	Surplus change	Balance sheet	Surplus change
Unrealized gains	\$ 889.1	\$ 287.0	\$ 602.1	\$ (62.5)
Unrealized losses	(23.5)	24.1	(47.6)	(19.8)
Net investment unrealized gains (losses)	<u>\$ 865.6</u>	<u>311.1</u>	<u>\$ 554.5</u>	<u>(82.3)</u>
Deferred tax benefit (expense)		(65.3)		17.3
Change in net unrealized capital gains and losses		\$ 245.8		\$ (65.0)

#### Investment income

Sources of net investment income for 2019 and 2018 are as follows:

Years ended December 31 (Millions)	2019	2018
Interest:		
Bonds	\$ 380.3	\$ 368.5
Short-term investments (a)	2.9	1.5
Other interest	0.4	-
Dividends:		
Common stocks	25.2	25.0
Real estate	25.8	17.4
Contract loans	0.8	0.8
Partnerships (a)	151.2	173.3
Amortization of IMR	1.5	1.5
Gross investment income	588.1	588.0
Investment expense	(36.5)	(29.3)
Interest expense	(3.7)	(2.5)
Depreciation on real estate	(6.9)	(4.3)
Net investment income	\$ 541.0	\$ 551.9

(a) These amounts reflect a permitted practice. See Note 1, principles of consolidation and basis of presentation, for additional information.

As of December 31, 2019 and 2018, investments carried at \$333.9 million and \$352.8 million, respectively, were on deposit with various governmental agencies as required by law. This represents 1.7 percent and 2.0 percent of the Company's total admitted assets as of December 31, 2019 and 2018, respectively. The Company's cash and invested assets include \$345.8 million in collateral received from insureds to secure estimated future obligations to the Company. This represents 1.8 percent of the Company's total admitted assets as of December 31, 2019. The Company has recorded an equivalent liability to recognize the future obligation to return collateral, which represents 2.5 percent of total liabilities as of December 31, 2019.

**Note 3 Investments (continued)**

Realized investment gains and losses for the years ended December 31, 2019 and 2018, were as follows:

Years ended December 31 (Millions)	2019			2018		
	Realized gains	Realized losses	Net realized gains (losses)	Realized gains	Realized losses	Net realized gains (losses)
Bonds	\$ 9.3	\$ 5.6	\$ 3.7	\$ 11.6	\$ 19.8	\$ (8.2)
Common stock	71.6	39.2	32.4	76.5	67.3	9.2
Partnerships	2.6	50.5	(47.9)	-	37.6	(37.6)
Other	-	0.3	(0.3)	-	0.2	(0.2)
	<u>\$ 83.5</u>	<u>\$ 95.6</u>	(12.1)	<u>\$ 88.1</u>	<u>\$ 124.9</u>	(36.8)
IMR gains (losses)			(1.8)			(0.9)
Less: Taxes on realized gains and losses			(0.8)			(5.8)
Net realized gains (losses), net of tax			\$ (14.7)			\$ (43.5)

The Company realized net losses of \$48.6 million and \$87.1 million in 2019 and 2018, respectively, related to other-than-temporary impairments of non-affiliated bonds, common stocks, and partnerships, and a net gain of \$1.1 million in 2019 and 2018, respectively, on called securities.

The Company realized no net losses in 2019 and 2018 related to other-than-temporary impairments of loan-backed securities.

**Note 3 Investments (continued)**

**Impairment analysis**

The following tables show the fair value and unrealized losses for bonds and common stocks, as of December 31, 2019 and 2018, respectively. The data is aggregated by investment category and length of time that individual securities have been in a continuous position where cost or amortized cost exceeds fair value.

December 31, 2019 (Millions)	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. government and government agencies	\$ 53.9	\$ 0.7	\$ 15.2	\$ 0.1	\$ 69.1	\$ 0.8
All other governments	14.1	0.1	10.7	0.1	24.8	0.2
States, territories, and possessions	9.6	0.4	-	-	9.6	0.4
Political subdivisions of states, territories, and possessions	19.4	0.1	1.3	-	20.7	0.1
Special revenue and special assessment	212.1	2.3	30.7	0.3	242.8	2.6
Industrial and miscellaneous	186.8	1.9	35.2	0.6	222.0	2.5
Subtotal, bonds	495.9	5.5	93.1	1.1	589.0	6.6
Common stocks	42.9	2.7	-	-	42.9	2.7
Total	\$ 538.8	\$ 8.2	\$ 93.1	\$ 1.1	\$ 631.9	\$ 9.3

**Note 3 Investments (continued)**

December 31, 2018 (Millions)	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. government and government agencies	\$ 382.9	\$ 6.1	\$ 430.3	\$ 12.0	\$ 813.2	\$ 18.1
All other governments	-	-	42.2	0.5	42.2	0.5
States, territories, and possessions	-	-	22.1	1.0	22.1	1.0
Political subdivisions of states, territories, and possessions	61.7	0.6	36.6	0.7	98.3	1.3
Special revenue and special assessment	441.2	4.8	390.7	11.8	831.9	16.6
Industrial and miscellaneous	2,047.0	48.1	914.8	38.5	2,961.8	86.6
Subtotal, bonds	2,932.8	59.6	1,836.7	64.5	4,769.5	124.1
Common stocks	166.6	19.9	-	-	166.6	19.9
<b>Total</b>	<b>\$ 3,099.4</b>	<b>\$ 79.5</b>	<b>\$ 1,836.7</b>	<b>\$ 64.5</b>	<b>\$ 4,936.1</b>	<b>\$ 144.0</b>

The following tables show the fair value and unrealized losses for loan-backed securities, as of December 31, 2019 and 2018, respectively. The data is aggregated by investment category and length of time that individual securities have been in a continuous position where cost or amortized cost exceeds fair value.

December 31, 2019 (Millions)	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. government and government agencies - MBS/ABS (a)	\$ 42.9	\$ 0.4	\$ 5.8	\$ -	\$ 48.7	\$ 0.4
Special revenue - MBS/ABS	23.9	0.5	23.2	0.2	47.1	0.7
Industrial and miscellaneous - MBS/ABS	59.3	0.5	5.8	-	65.1	0.5
<b>Total</b>	<b>\$ 126.1</b>	<b>\$ 1.4</b>	<b>\$ 34.8</b>	<b>\$ 0.2</b>	<b>\$ 160.9</b>	<b>\$ 1.6</b>

December 31, 2018 (Millions)	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. government and government agencies - MBS/ABS (a)	\$ 48.0	\$ 0.6	\$ 37.4	\$ 1.7	\$ 85.4	\$ 2.3
Special revenue - MBS/ABS	128.6	1.2	41.5	1.9	170.1	3.1
Industrial and miscellaneous - MBS/ABS	120.5	0.8	42.0	1.0	162.5	1.8
<b>Total</b>	<b>\$ 297.1</b>	<b>\$ 2.6</b>	<b>\$ 120.9</b>	<b>\$ 4.6</b>	<b>\$ 418.0</b>	<b>\$ 7.2</b>

(a) Mortgage-backed securities (MBS) and asset-backed securities (ABS).

**Note 3 Investments (continued)**

The majority of the unrealized losses of the Company's investments were caused by bonds being purchased in a lower interest rate environment relative to the interest rate environment at December 31, 2019. Because the Company has the ability and intent to hold these investments until maturity, the Company does not consider investments with such losses to be other-than-temporarily impaired at December 31, 2019. There were no loan-backed securities held at December 31, 2019 or 2018, which were previously other-than-temporarily impaired.

The Company's evaluation of other-than-temporary impairment of a particular security includes management making assumptions and estimates about the future earnings potential and operations of the issuer. Management considers such factors when evaluating whether a decline in fair value is other than temporary: (1) the Company's ability and intent to retain the investment for a period of time sufficient to allow for an anticipated recovery in value; (2) the recoverability of principal and interest; (3) the duration and extent to which the fair value has been less than cost for equity securities or amortized cost for bonds; (4) the financial condition of the issuer along with future prospects, including relevant industry conditions and trends and rating agency implications; and (5) the specific reasons that a security is in a significant unrealized loss position, including market conditions, which could affect access to liquidity.

Total unrealized losses on securities that were in a continuous unrealized loss position for twelve months or more are comprised of 32 bonds and no common stocks and 535 bonds and no common stocks at December 31, 2019 and 2018, respectively. Total unrealized losses on securities that were in a continuous unrealized loss position for twelve months or fewer are comprised of 143 bonds and 24 common stocks and 716 bonds and 120 common stocks at December 31, 2019 and 2018, respectively.

The Company does not have a material concentration of subprime investments.

**Company-occupied properties**

The following table summarizes Company-occupied properties used primarily in insurance operations:

December 31 (Millions)	2019	2018
Buildings	\$ 258.5	\$ 253.2
Land and improvements	18.8	6.7
Total cost	277.3	259.9
Accumulated depreciation	(112.5)	(105.8)
Carrying value	\$ 164.8	\$ 154.1

Depreciation expense for Company-occupied properties was \$6.7 million and \$4.1 million in 2019 and 2018, respectively.

Net investment income includes rental income of \$25.8 million and \$17.4 million in 2019 and 2018, respectively, for occupancy by the Company of its own buildings. A similar charge is included in operating expenses for both years.

**Company-owned life insurance**

The Company is the owner and beneficiary of life insurance policies included in other assets at their cash surrender values pursuant to SSAP No. 21, *Other Admitted Assets*. At December 31, 2019, the cash surrender value in an investment vehicle is \$20.5 million and is allocated into the following categories: 85% equity and 15% fixed income.

#### Note 4 Disclosures about fair value of financial instruments

Statutory accounting principles define the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Certain financial instruments and all nonfinancial instruments are excluded from statutory fair value disclosure requirements. Therefore, the aggregate fair value amounts presented below do not represent the underlying fair value of the Company.

The following methods and assumptions were used to estimate the fair value of each class of significant financial instruments for which it is practicable to estimate that value:

For cash and short-term investments, insurance premiums and reinsurance receivables, interest and dividends receivables, and accounts payable and accrued expenses, the carrying amount approximates fair value due to their short-term nature. Policy loans are an integral part of the underlying life insurance contracts and have no stated maturity dates; therefore, no reasonable estimate of fair value can be made. Interest rates range from 5 to 8 percent.

For bonds, the estimated fair value is generally based on quotes provided by data pricing services, brokers, and the Capital Markets and Investment Analysis Office of the NAIC. The fair values of common stocks are based on quotes provided by data pricing services and market values from the Capital Markets and Investment Analysis Office of the NAIC. The fair value of assets held in separate accounts and the related liabilities are based on underlying market prices.

The estimated fair values of the Company's financial instruments are as follows:

December 31 (Millions)	2019		2018	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Financial assets:				
Bonds	\$ 10,079.2	\$ 10,739.4	\$ 9,397.4	\$ 9,531.4
Common stocks	1,421.3	1,421.3	1,164.4	1,164.4
Short-term investments (a)	193.0	193.0	150.7	150.7
Assets held in separate accounts	5,538.3	5,538.3	4,416.0	4,416.0
Liabilities:				
Liabilities held in separate accounts	5,537.3	5,537.3	4,413.8	4,413.8

(a) These amounts reflect a permitted practice. See Note 1, principles of consolidation and basis of presentation, for additional information.

Included in various investment-related line items in the consolidated statutory financial statements are certain financial instruments carried at fair value. Other financial instruments are periodically measured at fair value, such as when impaired or, for certain bonds, when carried at the lower of cost or fair value.

The fair value of an asset is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses a market approach and maximizes the use of observable inputs and minimizes the use of unobservable inputs.

When quoted prices in active markets are not available, the Company uses the income approach to estimate the fair value of its financial instruments. The income approach involves using discounted cash flow and other standard valuation methodologies. The inputs in applying these market standard valuation methodologies include, but are not limited to, interest rates, benchmark yields, bid/ask spreads, dealer quotes, liquidity, term to maturity, estimated future cash flows, credit risk and default projections, collateral performance, deal and tranche attributes, and general market data.

**Note 4 Disclosures about fair value of financial instruments (continued)**

For disclosure purposes, based on a hierarchy defined by SSAP No. 100, *Fair Value*, the Company categorizes its financial instruments into a hierarchy based on the priority of the inputs to the valuation technique. The fair value hierarchy gives highest priority to quotes in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument in its entirety.

The Company categorizes financial assets and liabilities as follows:

- Level 1 - Management's valuations are based on unadjusted quoted prices in active markets for identical, unrestricted assets. Since valuations are based on quoted prices that are readily available in an active market, valuation of these assets does not involve any meaningful degree of judgment. An active market is defined as a market where transactions for the financial instrument occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 financial assets and liabilities generally include common stocks and U.S. government debt securities, where management's valuations are based on quoted market prices.
- Level 2 - Management's valuations are based on quoted market prices where such markets are not deemed to be sufficiently active. In such circumstances, additional valuation metrics will be used, which involve direct or indirect observable market inputs. Level 2 financial assets and liabilities generally include debt securities other than debt issued by the U.S. government. Independent pricing services constitute a significant input in management's determination of the fair value of these types of bonds. In developing such quotes, dealers will use the terms of the security and market-based inputs. Terms of the security include coupon, maturity date, and any special provision that may enable the investor to redeem the security prior to its maturity date. Market-based inputs include the level of interest rates applicable to comparable securities in the market and current credit ratings of the security. A small segment of Level 2 securities is priced internally using matrix pricing, broker quotes, and benchmark and spread analysis.
- Level 3 - Management's valuations are based on inputs that are unobservable and significant to the overall fair value measurement. Valuations under Level 3 generally involve a significant degree of judgment on the part of management.

**Note 4 Disclosures about fair value of financial instruments (continued)**

The following tables present the fair value hierarchy levels for the Company's assets and liabilities:

December 31, 2019	Level 1	Level 2	Level 3	Total
(Millions)				
Financial assets:				
Bonds	\$ 175.0	\$ 10,564.4	\$ -	\$ 10,739.4
Common stocks	1,418.8	2.5	-	1,421.3
Short-term investments (a)	193.0	-	-	193.0
Assets held in separate accounts	-	5,538.3	-	5,538.3
<b>Total financial assets</b>	<b>\$ 1,786.8</b>	<b>\$ 16,105.2</b>	<b>\$ -</b>	<b>\$ 17,892.0</b>
Liabilities:				
Liabilities held in separate accounts	\$ -	\$ 5,537.3	\$ -	\$ 5,537.3

December 31, 2018	Level 1	Level 2	Level 3	Total
(Millions)				
Financial assets:				
Bonds	\$ 184.8	\$ 9,346.6	\$ -	\$ 9,531.4
Common stocks	1,162.2	2.2	-	1,164.4
Short-term investments (a)	150.7	-	-	150.7
Assets held in separate accounts	-	4,416.0	-	4,416.0
<b>Total financial assets</b>	<b>\$ 1,497.7</b>	<b>\$ 13,764.8</b>	<b>\$ -</b>	<b>\$ 15,262.5</b>
Liabilities:				
Liabilities held in separate accounts	\$ -	\$ 4,413.8	\$ -	\$ 4,413.8

(a) These amounts reflect a permitted practice. See Note 1, principles of consolidation and basis of presentation, for additional information.

The Company had no changes in fair value of assets utilizing Level 3 inputs for the years ended December 31, 2019 and 2018.

## Note 5 EDP equipment and software, furniture and equipment, and leases and leasehold Improvements

Depreciation expense for EDP equipment and operating software was \$7.4 million and \$7.9 million in 2019 and 2018, respectively. Depreciation expense for nonoperating system software was \$0.3 million and \$0.4 million in 2019 and 2018, respectively. The gross cost for EDP equipment and operating software was \$109.7 million and \$108.0 million as of December 31, 2019 and 2018, respectively. Related accumulated depreciation was \$101.2 million and \$94.8 million as of December 31, 2019 and 2018, respectively.

Depreciation expense for furniture and equipment was \$4.3 million and \$3.1 million in 2019 and 2018, respectively. Amortization expense for leasehold improvements was \$0.3 million in 2019 and \$0.4 million in 2018. The net admitted assets for furniture and equipment and leases and leasehold improvements were zero at December 31, 2019 and 2018.

The Company leases office equipment, vehicles, and office space under various lease agreements that expire through August 2029. External rental expenses in 2019 and 2018 were \$11.2 million and \$10.7 million, respectively.

At December 31, 2019, the minimum aggregate rental commitments for noncancelable office space leases totaled \$29.8 million through 2029. Minimum aggregate rental commitments for noncancelable office space leases for the next succeeding five years are as follows:

Years ended December 31 (Millions)	Rental commitment
2020	\$ 6.8
2021	5.9
2022	5.3
2023	3.7
2024	2.4
Thereafter	5.7

The Company has eleven major leased office locations. These leases can be renewed for between five-year and ten-year increments. The lease agreements have immaterial escalation clauses. The Company has no lease commitments for vacated properties. The Company is not involved in any material sales-leaseback transactions and leasing is not a significant part of the Company's business activities.

## Note 6 Reserves for losses and loss adjustment expenses

### Property and casualty and accident and health reserves

Activity in the liability for losses and loss expenses relating to property and casualty and accident and health reserves is as follows:

Years ended December 31	2019	2018
(Millions)		
Reserves for losses and loss expenses at beginning of year	\$ 4,072.2	\$ 3,843.2
Less reinsurance recoverable on unpaid losses	607.2	548.9
Net reserves for losses and loss expenses at beginning of year	3,465.0	3,294.3
Provision for losses and loss expenses for claims incurred:		
Current year	1,902.8	1,732.0
Prior years	(161.7)	(69.4)
Total incurred losses and loss expenses	1,741.1	1,662.6
Payments for losses and loss expenses on claims incurred:		
Current year	714.3	678.5
Prior years	791.1	813.4
Total paid losses and loss expenses	1,505.4	1,491.9
Net reserves for losses and loss expenses at end of year	3,700.7	3,465.0
Plus reinsurance recoverable on unpaid losses	623.8	607.2
Reserves for losses and loss expenses at end of year	\$ 4,324.5	\$ 4,072.2

Favorable development on prior year incurred losses and loss expenses reflects ongoing analysis of recent loss trends and reevaluation based on information known for individual claims. This favorable development was driven by lower-than-anticipated losses across multiple Schedule P lines of business with the primary drivers being workers' compensation, auto physical damage, and special property. To the extent this favorable development is attributable to loss sensitive contracts, premiums were adjusted accordingly.

Loss reserves reported in the above table are presented net of anticipated salvage and subrogation recoveries totaling \$56.6 million and \$43.8 million as of December 31, 2019 and 2018, respectively.

### High deductible policies

Loss reserves reported in the above table are also presented net of reserve credits. These reserve credits relate to deductibles receivable from policyholders on certain policies considered "high deductible" policies. Unlike traditional insurance policies, the Company generally pays losses under the deductible limit on high deductible policies and then collects these amounts from the policyholder. Balances for high deductible policies are as follows:

December 31, 2019	Gross (of high deductible) loss reserves	Reserve credit for high deductibles	Billed recoverables on paid claims	Total high deductibles and billed recoverables
(Millions)				
Workers' compensation	\$ 1,788.9	\$ 701.1	\$ 28.1	\$ 729.2
All other lines	238.3	72.7	2.8	75.5

**Note 6 Reserves for losses and loss adjustment expenses (continued)**

December 31, 2018 (Millions)	Gross (of high deductible) loss reserves	Reserve credit for high deductibles	Billed recoverables on paid claims	Total high deductibles and billed recoverables
Workers' compensation	\$ 1,685.7	\$ 670.2	\$ 25.6	\$ 695.8
All other lines	198.5	61.6	4.2	65.8

To minimize credit risk, the Company continually monitors the condition of these receivables, and in certain situations requires collateral in the form of letters of credit, cash deposits, trusts, or bonds. Collateral in the form of cash deposits is reflected on the consolidated statutory balance sheets within cash and investments while all other collateral is excluded. The Company held collateral on these policies in the amounts of \$581.1 million and \$556.6 million as of December 31, 2019 and 2018, respectively; \$224.2 million and \$211.9 million was in the form of cash deposits, while \$356.9 million and \$344.6 million was in the form of letters of credit, trusts, or bonds. Total unsecured amounts of \$223.6 million and \$205.0 million represented 27.8 percent and 26.9 percent of the total high deductible amounts related to unpaid claims and recoverables on paid claims as of December 31, 2019 and 2018, respectively.

Of the billed and recoverable amounts on paid claims under these policies, \$6.4 million and \$11.4 million were over 90 days past due as of December 31, 2019 and 2018, respectively. Overdue deductible recoverables in excess of collateral specifically held and identifiable on a per-policy basis is reported as a non-admitted asset; as of December 31, 2019 and 2018, there were no amounts nonadmitted due to either aging or collateral.

The deductible amounts for the highest ten unsecured high deductible policies at December 31, 2019 and 2018, are listed below. Each individual counterparty may not be consistent between years.

As of December 31 (Millions)	2019	2018
Counterparty 1	\$ 17.0	\$ 16.8
Counterparty 2	9.1	10.2
Counterparty 3	8.7	10.2
Counterparty 4	4.3	5.2
Counterparty 5	4.3	4.5
Counterparty 6	3.8	3.6
Counterparty 7	3.5	2.8
Counterparty 8	3.3	2.7
Counterparty 9	3.1	2.5
Counterparty 10	3.1	2.3

**Note 6 Reserves for losses and loss adjustment expenses (continued)**

**Asbestos and environmental claims**

The Company has certain exposures for asbestos and environmental claims arising from the sale of product and general liability insurance and reinsurance. The Company estimates the full impact of the asbestos and environmental exposure by establishing full case reserves on all known losses and computing incurred but not reported losses based on previous experience. Activity related to these reserves is as follows:

**Asbestos losses: direct**

Years ended December 31	2019	2018
(Millions)		
Reserves for asbestos claims at beginning of year	\$ 149.5	\$ 151.7
Incurred losses and loss expenses	20.5	4.2
Paid losses and loss expenses	(13.1)	(6.4)
Reserves for asbestos claims at end of year	\$ 156.9	\$ 149.5

**Asbestos losses: assumed reinsurance**

Years ended December 31	2019	2018
(Millions)		
Reserves for asbestos claims at beginning of year	\$ 52.0	\$ 46.9
Incurred losses and loss expenses	2.4	8.2
Paid losses and loss expenses	(5.9)	(3.1)
Reserves for asbestos claims at end of year	\$ 48.5	\$ 52.0

**Asbestos losses: net of reinsurance**

Years ended December 31	2019	2018
(Millions)		
Reserves for asbestos claims at beginning of year	\$ 174.4	\$ 175.3
Incurred losses and loss expenses	7.8	7.5
Paid losses and loss expenses	(13.9)	(8.4)
Reserves for asbestos claims at end of year	\$ 168.3	\$ 174.4

**Note 6 Reserves for losses and loss adjustment expenses (continued)**

<b>Environmental losses: direct</b> Years ended December 31	<b>2019</b>	<b>2018</b>
(Millions)		
Reserves for environmental claims at beginning of year	\$ 82.6	\$ 99.8
Incurred losses and loss expenses	(1.0)	(15.3)
Paid losses and loss expenses	(3.4)	(1.9)
Reserves for environmental claims at end of year	\$ 78.2	\$ 82.6

<b>Environmental losses: assumed reinsurance</b> Years ended December 31	<b>2019</b>	<b>2018</b>
(Millions)		
Reserves for environmental claims at beginning of year	\$ 6.7	\$ 8.0
Incurred losses and loss expenses	1.1	(0.3)
Paid losses and loss expenses	(1.4)	(1.0)
Reserves for environmental claims at end of year	\$ 6.4	\$ 6.7

<b>Environmental losses: net of reinsurance</b> Years ended December 31	<b>2019</b>	<b>2018</b>
(Millions)		
Reserves for environmental claims at beginning of year	\$ 86.4	\$ 89.5
Incurred losses and loss expenses	0.2	(0.7)
Paid losses and loss expenses	(3.8)	(2.4)
Reserves for environmental claims at end of year	\$ 82.8	\$ 86.4

**Note 7 Life and other future policy benefits**

Future policy benefits for life and annuities at December 31, 2019 and 2018, are as follows:

December 31	2019	2018
(Millions)		
Life		
Life insurance	\$ 216.7	\$ 220.1
Accidental death and disability benefits	5.6	6.4
Miscellaneous reserves	13.5	14.5
Future policy benefits - life	235.8	241.0
Annuities		
Aggregate reserves for annuity contracts	2,099.2	2,067.5
Structured settlements	79.3	79.6
Liabilities for premium and other deposit funds	2.4	2.4
Future policy benefits - annuities	2,180.9	2,149.5
Total future policy benefits - life and annuities	2,416.7	2,390.5
Policy and contract claims - life and annuities	2.7	2.2
Total life and other future policy benefits	\$ 2,419.4	\$ 2,392.7

**Note 7 Life and other future policy benefits (continued)**

The withdrawal characteristics of all annuity reserves and deposit liabilities at December 31, 2019 and 2018, are as follows:

Individual annuities	General Account		Separate account nonguaranteed		Total	% of total
December 31, 2019						
(Millions)						
Subject to discretionary withdrawal:						
With market value adjustment	\$	-	\$	-	\$	-
At book value, less current surrender charge of 5% or more		4.1		-	4.1	4.7%
At fair value		-		27.5	27.5	31.4%
Total with adjustment or at market value		4.1		27.5	31.6	36.1%
At book value without adjustment (minimal or no charge or adjustment)		48.6		-	48.6	55.5%
Total subject to discretionary withdrawal		52.7		27.5	80.2	91.6%
Not subject to discretionary withdrawal		7.4		-	7.4	8.4%
Total (gross)		60.1		27.5	87.6	100.0%
Reinsurance ceded		-		-	-	
Total (net)	\$	60.1	\$	27.5	\$	87.6
Amount above with a surrender charge of 5% or more that will have minimal or no charge or adjustment in the following year	\$	2.0	\$	-	\$	2.0

December 31, 2018	General Account		Separate account nonguaranteed		Total	% of total
(Millions)						
Subject to discretionary withdrawal:						
With market value adjustment	\$	-	\$	-	\$	-
At book value, less current surrender charge of 5% or more		12.1		-	12.1	14.3%
At fair value		-		23.9	23.9	28.3%
Total with adjustment or at market value		12.1		23.9	36.0	42.6%
At book value without adjustment (minimal or no charge or adjustment)		41.0		-	41.0	48.5%
Total subject to discretionary withdrawal		53.1		23.9	77.0	91.1%
Not subject to discretionary withdrawal		7.5		-	7.5	8.9%
Total (gross)		60.6		23.9	84.5	100.0%
Reinsurance ceded		-		-	-	
Total (net)	\$	60.6	\$	23.9	\$	84.5
Amount above with a surrender charge of 5% or more that will have minimal or no charge or adjustment in the following year	\$	1.1	\$	-	\$	1.1

**Note 7 Life and other future policy benefits (continued)**

Group Annuities	General Account	Separate account nonguaranteed	Total	% of total
December 31, 2019				
(Millions)				
Subject to discretionary withdrawal:				
With market value adjustment	\$ 2,025.5	\$ -	\$ 2,025.5	26.6%
At book value, less current surrender charge of 5% or more	-	-	-	-
At fair value	-	5,500.8	5,500.8	72.2%
Total with adjustment or at market value	2,025.5	5,500.8	7,526.3	98.8%
At book value without adjustment (minimal or no charge or adjustment)	6.3	-	6.3	0.1%
Total subject to discretionary withdrawal	2,031.8	5,500.8	7,532.6	98.9%
Not subject to discretionary withdrawal	86.6	-	86.6	1.1%
Total (gross)	2,118.4	5,500.8	7,619.2	100.0%
Reinsurance ceded	-	-	-	
Total (net)	\$ 2,118.4	\$ 5,500.8	\$ 7,619.2	
Amount above with a surrender charge of 5% or more that will have minimal or no charge or adjustment in the following year	\$ -	\$ -	\$ -	

December 31, 2018	General Account	Separate account nonguaranteed	Total	% of total
(Millions)				
Subject to discretionary withdrawal:				
With market value adjustment	\$ 1,992.8	\$ -	\$ 1,992.8	30.9%
At book value, less current surrender charge of 5% or more	-	-	-	-
At fair value	-	4,374.7	4,374.7	67.7%
Total with adjustment or at market value	1,992.8	4,374.7	6,367.5	98.6%
At book value without adjustment (minimal or no charge or adjustment)	6.8	-	6.8	0.1%
Total subject to discretionary withdrawal	1,999.6	4,374.7	6,374.3	98.7%
Not subject to discretionary withdrawal	86.9	-	86.9	1.3%
Total (gross)	2,086.5	4,374.7	6,461.2	100.0%
Reinsurance ceded	-	-	-	
Total (net)	\$ 2,086.5	\$ 4,374.7	\$ 6,461.2	
Amount above with a surrender charge of 5% or more that will have minimal or no charge or adjustment in the following year	\$ -	\$ -	\$ -	

**Note 7 Life and other future policy benefits (continued)**

Deposit-type contracts (no life contingencies)	General Account		Separate account nonguaranteed		Total	% of total
December 31, 2019						
(Millions)						
Subject to discretionary withdrawal:						
With market value adjustment	\$	-	\$	-	\$	-
At book value, less current surrender charge of 5% or more		-		-		-
At fair value		-		-		-
Total with adjustment or at market value		-		-		-
At book value without adjustment (minimal or no charge or adjustment)		-		-		-
Total subject to discretionary withdrawal		-		-		-
Not subject to discretionary withdrawal		2.4		-	2.4	100.0%
Total (gross)		2.4		-	2.4	100.0%
Reinsurance ceded		-		-		-
Total (net)	\$	2.4	\$	-	\$	2.4
Amount above with a surrender charge of 5% or more that will have minimal or no charge or adjustment in the following year	\$	-	\$	-	\$	-

	General Account		Separate account nonguaranteed		Total	% of total
December 31, 2018						
(Millions)						
Subject to discretionary withdrawal:						
With market value adjustment	\$	-	\$	-	\$	-
At book value, less current surrender charge of 5% or more		-		-		-
At fair value		-		-		-
Total with adjustment or at market value		-		-		-
At book value without adjustment (minimal or no charge or adjustment)		-		-		-
Total subject to discretionary withdrawal		-		-		-
Not subject to discretionary withdrawal		2.4		-	2.4	100.0%
Total (gross)		2.4		-	2.4	100.0%
Reinsurance ceded		-		-		-
Total (net)	\$	2.4	\$	-	\$	2.4
Amount above with a surrender charge of 5% or more that will have minimal or no charge or adjustment in the following year	\$	-	\$	-	\$	-

**Note 7 Life and other future policy benefits (continued)**

The withdrawal characteristics of life actuarial reserves at December 31, 2019 and 2018 are as follows:

December 31, 2019 (Millions)	General account			Separate account - nonguaranteed		
	Account value	Cash Value	Reserve	Account Value	Cash Value	Reserve
Subject to discretionary withdrawal, surrender values, or policy loans						
Term Policies with cash value	\$ 0.8	\$ 0.8	\$ 1.4	\$ -	\$ -	\$ -
Universal life	80.2	81.4	83.0	-	-	-
Other permanent cash value life insurance	85.7	85.7	107.4	-	-	-
Variable universal life	-	-	-	8.2	8.2	8.0
Not subject to discretionary withdrawal or no cash values						
Term policies with cash value	XXX	XXX	48.8	XXX	XXX	-
Accidental death benefits	XXX	XXX	-	XXX	XXX	-
Disability - active lives	XXX	XXX	0.2	XXX	XXX	-
Disability - disabled lives	XXX	XXX	5.8	XXX	XXX	-
Miscellaneous reserves	XXX	XXX	25.4	XXX	XXX	-
Total (gross)	166.7	167.9	272.0	8.2	8.2	8.0
Reinsurance ceded	-	-	36.2	-	-	-
Total (net)	\$ 166.7	\$ 167.9	\$ 235.8	\$ 8.2	\$ 8.2	\$ 8.0

December 31, 2018 (Millions)	General account			Separate account - nonguaranteed		
	Account value	Cash Value	Reserve	Account Value	Cash Value	Reserve
Subject to discretionary withdrawal, surrender values, or policy loans						
Term Policies with cash value	\$ 0.7	\$ 0.7	\$ 1.4	\$ -	\$ -	\$ -
Universal life	85.6	86.8	88.3	-	-	-
Other permanent cash value life insurance	84.5	84.5	105.5	-	-	-
Variable universal life	-	-	-	6.6	6.6	6.4
Not subject to discretionary withdrawal or no cash values						
Term policies with cash value	XXX	XXX	47.5	XXX	XXX	-
Accidental death benefits	XXX	XXX	-	XXX	XXX	-
Disability - active lives	XXX	XXX	0.2	XXX	XXX	-
Disability - disabled lives	XXX	XXX	6.8	XXX	XXX	-
Miscellaneous reserves	XXX	XXX	26.7	XXX	XXX	-
Total (gross)	170.8	172.0	276.4	6.6	6.6	6.4
Reinsurance ceded	-	-	35.4	-	-	-
Total (net)	\$ 170.8	\$ 172.0	\$ 241.0	\$ 6.6	\$ 6.6	\$ 6.4

**Note 7 Life and other future policy benefits (continued)**

The below tables reconciles the withdrawal characteristics of all life, annuity reserves, and deposit liabilities to specific Annual Statement schedules as of December 31, 2019.

(Millions)

Life & accident & health annual statement	Balance sheet caption	Life	Annuities	Total
Exhibit 5, life insurance, total (net)	Life and other future policy benefits	\$ 216.7	\$ -	\$ 216.7
Exhibit 5, disability - active lives, total (net)	Life and other future policy benefits	0.2	-	0.2
Exhibit 5, disability - disabled lives, total (net)	Life and other future policy benefits	5.4	-	5.4
Exhibit 5, miscellaneous reserves, total (net)	Life and other future policy benefits	13.5	0.8	14.3
Exhibit 5, annuities, total (net)	Life and other future policy benefits	-	2,177.6	2,177.6
Exhibit 5, supplementary contracts with life contingencies, total (net)	Life and other future policy benefits	-	0.1	0.1
Exhibit 7, deposit-type contracts, line 14, column 1	Life and other future policy benefits	-	2.4	2.4
Subtotal		235.8	2,180.9	2,416.7
Separate accounts annual statement	Balance sheet caption			
Exhibit 3, line 0199999, column 2	Separate account liabilities	8.0	-	8.0
Exhibit 3, line 0299999, column 2	Separate account liabilities	-	5,528.3	5,528.3
Subtotal		8.0	5,528.3	5,536.3
Combined total		\$ 243.8	\$ 7,709.2	\$ 7,953.0

## Note 8 Separate accounts

The life insurance subsidiaries utilize separate accounts to record and account for assets and liabilities for employee benefit plans, variable annuities, and variable universal life product lines.

All separate account assets are considered legally insulated from the general account except for the Company's interest in the separate accounts (seed money). The legal insulation of the separate account assets prevents such assets from being generally available to satisfy claims resulting from the general accounts. All separate account assets are registered with the U.S. Securities and Exchange Commission (SEC). As of December 31, 2019 and 2018, the life companies' separate account statements included legally insulated assets of \$5.5 billion and \$4.4 billion, respectively.

Activity and liabilities (primarily reserves) in the life insurance subsidiaries' separate accounts are as follows:

Years ended December 31 (Millions)	2019	2018
Premiums, considerations, or deposits	\$ 1,551.8	\$ 1,881.4
Liabilities:		
Reserves carried at fair value	\$ 5,536.3	\$ 4,405.0
Non-policy liabilities	1.0	8.8
Total liabilities	\$ 5,537.3	\$ 4,413.8
Liabilities by withdrawal characteristics:		
Subject to discretionary withdrawal:		
With market value adjustment	\$ -	\$ -
At book value without market value adjustment and with current surrender charge of 5% or more	-	-
At fair value	5,536.3	4,405.0
At book value without market value adjustment and with current surrender charge less than 5%	-	-
Total reserves subject to discretionary withdrawal	5,536.3	4,405.0
Non-policy liabilities	1.0	8.8
Total liabilities	\$ 5,537.3	\$ 4,413.8
Reserves for asset default risk in lieu of AVR	\$ -	\$ -

Insurance claims and policyholders' benefits as reported on the consolidated statements of operations include amounts transferred to (from) separate accounts. These transfers reported in the life companies' separate accounts statements are as follows:

Years ended December 31 (Millions)	2019	2018
Transfers to separate accounts	\$ 1,551.8	\$ 1,881.4
Transfers from separate accounts	(1,434.0)	(1,510.7)
Net transfers as reported in the separate accounts statements	117.8	370.7
Other	-	-
Net transfers as reported in the statements of operations	\$ 117.8	\$ 370.7

**Note 9 Reinsurance**

The Company cedes insurance to other insurers under various contracts, which cover individual risks or entire classes of business. There are no significant concentrations with any one reinsurer. Although the ceding of insurance does not discharge the Company from its primary liability to policyholders in the event any reinsurer might be unable to meet the obligations assumed under the reinsurance agreements, it is the practice of insurers to reduce their balances for amounts ceded. Amounts deducted in the accompanying consolidated statutory financial statements for reinsurance ceded to other insurers are as follows:

Years ended December 31 (Millions)	2019	2018
Insurance premiums and deposits ceded	\$ 165.4	\$ 164.8
Insurance benefits ceded	143.4	195.9

  

December 31 (Millions)	2019	2018
Liabilities for losses and loss expenses ceded	\$ 660.0	\$ 642.6
Unearned premiums ceded	40.7	36.2

The Company is not currently participating in voluntary assumed reinsurance programs, but assumed case reserves remain outstanding. Business is also assumed from mandatory pools, primarily the National Council of Compensation Insurance (NCCI) workers' compensation pool.

## Note 10 Benefit plans

### Qualified pension plan

SIAMCO sponsors a qualified noncontributory defined benefit pension plan (the Plan) covering all employees hired before January 1, 2010. SIAMCO made accrual entries based on actuarially determined amounts.

The following provides a reconciliation of benefit obligations, plan assets, and funded status related to the Plan.

December 31 (Millions)	2019	2018
Benefit obligation at beginning of year	\$ 1,392.7	\$ 1,499.5
Service cost	19.2	23.1
Interest cost	56.9	52.6
Liability (gain) loss	208.7	(110.8)
Benefits paid	(74.1)	(71.7)
Benefit obligation at end of year	\$ 1,603.4	\$ 1,392.7

December 31 (Millions)	2019	2018
Fair value of assets at beginning of year	\$ 1,433.1	\$ 1,439.0
Actual investment return on assets	251.3	15.8
Employer contributions	-	50.0
Benefits paid	(74.1)	(71.7)
Fair value of assets at end of year	\$ 1,610.3	\$ 1,433.1

The excess of plan assets over benefit obligations was \$6.9 million as of December 31, 2019. The excess of benefit obligations over plan assets was \$40.4 million as of December 31, 2018.

Years ended December 31 (Millions)	2019	2018
Service cost	\$ 19.2	\$ 23.1
Interest cost	56.9	52.6
Actual investment return on assets	(251.3)	(15.8)
Amortization of loss	-	5.9
Difference between expected and actual return on assets	188.5	(52.2)
Total net periodic pension cost	\$ 13.3	\$ 13.6

The accumulated benefit obligation for all participants was \$1,529.2 million and \$1,341.5 million as of December 31, 2019 and 2018, respectively. The fair value of plan assets of \$1,610.3 million and \$1,433.1 million reflects the fair value at the December 31, 2019 and 2018 measurement dates, respectively.

## Note 10 Benefit plans (continued)

The following table provides a reconciliation of amounts in unassigned surplus that have not been recognized as components of net periodic pension cost:

December 31 (Millions)	2019	2018
Items not yet recognized as a component of net periodic pension cost at beginning of year	\$ 139.0	\$ 203.5
Net (gain) loss arising during the period	20.2	(58.6)
Net loss recognized during period	-	(5.9)
Items not yet recognized as a component of net periodic pension cost at end of year	\$ 159.2	\$ 139.0

At December 31, 2019, there was \$159.2 million of net recognized losses in unassigned surplus that have not yet been recognized as components of net periodic pension cost. The net loss arising during 2019 resulted from a decrease in discount rate, offset by asset gain. The net gain in 2018 resulted from an increase in discount rate, offset by asset loss.

The table below presents the fair value hierarchy for the balances of the assets of the Plan measured at fair value. Fair value of Level 1 assets is based on unadjusted quoted prices for identical assets in active markets that are accessible to SIAMCO. Fair value of Level 2 assets is based on quoted prices other than those included within Level 1 that are observable for the asset, either directly or indirectly. Fair value of Level 3 assets is estimated by SIAMCO using one or more significant unobservable inputs.

December 31, 2019 (Millions)	Level 1	Level 2	Level 3	Total
Pooled separate accounts	\$ -	\$ 1,333.5	\$ -	\$ 1,333.5
Deposit fund	-	276.8	-	276.8
Total investments at fair value	\$ -	\$ 1,610.3	\$ -	\$ 1,610.3

December 31, 2018 (Millions)	Level 1	Level 2	Level 3	Total
Pooled separate accounts	\$ -	\$ 1,101.8	\$ -	\$ 1,101.8
Deposit fund	-	331.3	-	331.3
Total investments at fair value	\$ -	\$ 1,433.1	\$ -	\$ 1,433.1

The Plan assets are invested primarily in common stocks and corporate debt through a group annuity contract with SLIC that allows SIAMCO contributions to be allocated to the pooled separate accounts or the Deposit Fund at the discretion of SIAMCO. SIAMCO's allocation of investments is as follows:

	2019	2018	Target allocation
Debt securities	84%	85%	55-90%
Equity securities	16%	15%	10-45%
Total	100%	100%	

## Note 10 Benefit plans (continued)

The investment objectives are designed to (1) provide a long-term investment return that meets the actuarial assumption; (2) maximize investment returns commensurate with appropriate levels of risk; and (3) invest funds in a manner consistent with ERISA's fiduciary standards. Assets are allocated to provide adequate liquidity for Plan disbursements and managed such that all retirement benefit payments are met as they become due. The group annuity contract is valued at fair value at December 31, 2019 and 2018, as follows:

The pooled separate accounts represent ownership of units of participation (Units), rather than ownership of specific assets. The value of the pooled separate accounts is determined by aggregating the value of all the Units held by the Plan. The value of a Unit is the total value of the pooled separate accounts investments plus other assets less liabilities divided by the number of Units outstanding. The underlying investments in the pooled separate accounts are valued at fair value, which is generally determined by the quoted market prices of the underlying investments.

The Deposit Fund represents contributions made under the contract, plus contractually established interest, less funds used to pay benefits and administrative expenses of the Plan.

The assumptions used in the calculations for SIAMCO's pension plan are as follows:

<b>Weighted average assumptions used to determine net periodic pension cost:</b>	<b>2019</b>	<b>2018</b>
Measurement date	<b>December 31</b>	December 31
Discount rate	<b>4.20%</b>	3.60%
Long-term rate of return on plan assets	<b>4.50%</b>	4.75%
Rate of compensation increase	<b>1-20%</b>	1-20%
Interest crediting rates	-	-

  

<b>Weighted average assumptions used to determine benefit obligations:</b>	<b>2019</b>	<b>2018</b>
Measurement date	<b>December 31</b>	December 31
Discount rate	<b>3.20%</b>	4.20%
Rate of compensation increase	<b>1-20%</b>	1-20%
Interest crediting rates	-	-

At December 31, 2019 and 2018, SIAMCO utilized a discount rate equivalent to the FTSE Pension Liability Index, which reflects the yield of a portfolio of high-quality, fixed income debt securities that would produce cash flows sufficient in timing and amount to pay projected future benefits.

In selecting the expected long-term rate of return on assets, SIAMCO considered the average rate of earnings expected on the classes of funds invested or to be invested to provide for the benefits of these plans. This included considering the targeted asset allocation for the year and the expected returns likely to be earned over the next 20 years.

**Note 10 Benefit plans (continued)**

Benefit payments, which reflect future service, are expected to be paid in the following fiscal years:

December 31 (Millions)	Estimated future pension benefits
2020	\$ 74.3
2021	75.1
2022	75.7
2023	76.5
2024	77.6
Years 2025-2029	401.4

**Nonqualified pension plans**

SIAMCO sponsors nonqualified pension plans. The benefit obligation at December 31, 2019 and 2018, was \$84.3 million and \$72.9 million, respectively. The net periodic pension cost was \$4.8 million and \$7.7 million in 2019 and 2018, respectively. These plans are not funded.

**Postretirement benefits other than pensions**

In addition to pension benefits, SIAMCO provides certain healthcare, dental and vision insurance benefits (post-retirement benefits) for retired employees. SIAMCO employees hired before January 1, 2010, who are age 55 plus having 10 or more years of service, or at least age 65, may become eligible for these benefits. The measurement date for plan obligations is December 31, 2019 and 2018. This plan is not funded.

Life insurance benefits may be eligible for employees who retired prior to January 1, 2013. The life insurance benefit amount is the greater of \$3,000 or 10 percent of final benefits earnings base. Employees that retired after January 1, 2013 are not eligible for life insurance benefits.

A summary of obligations, assets and funded status as of December 31, 2019 and 2018, and components of net periodic post-retirement benefit cost for the years ended December 31, 2019 and 2018, are shown net of the subsidy effect provided for in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003.

The changes in the post-retirement benefit obligation are as follows:

December 31 (Millions)	2019	2018
Benefit obligation at beginning of year	\$ 265.0	\$ 295.7
Service cost	4.4	5.7
Interest cost	10.7	10.1
Actuarial (gain) loss	47.7	(35.1)
Benefits paid	(11.8)	(11.4)
Benefit obligation at end of year	\$ 316.0	\$ 265.0

**Note 10 Benefit plans (continued)**

The components of net periodic postretirement benefit cost are as follows:

Years ended December 31 (Millions)	2019	2018
Service cost	\$ 4.4	\$ 5.7
Interest cost	10.7	10.1
Amortization of actuarial gain	(0.5)	-
Net periodic postretirement benefit cost prior to amortization of nonvested prior service cost	14.6	15.8
Amortization of nonvested prior service cost	3.0	10.9
Total net periodic postretirement benefit cost	\$ 17.6	\$ 26.7

The components of the unfunded postretirement benefit obligation recorded in the consolidated statutory financial statements are as follows:

December 31 (Millions)	2019	2018
Retirees	\$ 165.6	\$ 136.2
Eligible active participants	66.2	57.9
Nonvested participants	84.2	70.9
Recorded unfunded postretirement benefit obligation	\$ 316.0	\$ 265.0

The assumptions used in the calculation for postretirement benefits other than pension are as follows:

<b>Weighted average assumptions used to determine net periodic benefit cost:</b>	2019	2018
Measurement date	<b>December 31</b>	December 31
Discount rate	4.14%	3.51%
Current healthcare cost trend rate	8.00%	8.00%

  

<b>Weighted average assumptions used to determine benefit obligations:</b>	2019	2018
Measurement date	<b>December 31</b>	December 31
Discount rate	3.05%	4.14%
Current healthcare cost trend rate	7.00%	8.00%
Healthcare cost trend rate graded to	5.50%	5.50%
Period healthcare cost trend rate is graded (years)	10	10

## Note 10 Benefit plans (continued)

Benefit payments, which reflect future service, are expected to be paid in the following fiscal years:

December 31 (Millions)	Gross estimated future benefits	Medicare D subsidy	Net estimated future benefits
2020	16.2	\$ -	16.2
2021	17.0	-	17.0
2022	17.5	-	17.5
2023	17.6	-	17.6
2024	17.4	-	17.4
Years 2025-2029	83.9	-	83.9

Effective January 1, 2014, participating Medicare-eligible retirees and spouses have the option of either participating in the Sentry Group Plan that is eligible for the Retiree Drug Subsidy or receiving monthly subsidies to purchase individual Medicare coverage through an exchange. Beginning January 1, 2015, participating Medicare-eligible retirees and spouses were provided more choices to select an individual Medicare coverage through any carrier of their choice or through an established connector. Additionally, Sentry retirees that retired prior to the year 2000 have the option to continue to participate, along with their spouse, in the Sentry Group Plan. It is the Company's intent to transition retirees to the individual marketplace.

The following provides a reconciliation of amounts in unassigned surplus that have not been recognized as components of net periodic postretirement benefit cost as of December 31, 2019:

December 31 (Millions)	2019	2018
Items not yet recognized as a component of net periodic postretirement benefit cost at beginning of year	\$ (28.1)	\$ 17.9
Net prior service cost recognized during period	(3.0)	(10.9)
Net (gain) and loss arising during the period	47.7	(35.1)
Net gain (loss) recognized during period	0.5	-
Items not yet recognized as a component of net periodic postretirement benefit cost at end of year	\$ 17.1	\$ (28.1)

At December 31, 2019, there were \$17.1 million of net recognized losses in unassigned surplus that have not yet been recognized as components of net periodic post-retirement benefit cost. The loss arising during 2019 resulted from a decrease in discount rates. The gain arising during 2018 resulted from an increase in discount rates plus a reduction in eligible participants.

### Qualified 401(k) plan

SIAMCO participates in a qualified 401(k) plan. Employees who meet certain eligibility requirements may elect to participate in the 401(k) plan and defer up to 75 percent of their income on a combined pretax, Roth, and after-tax basis subject to certain Internal Revenue Service (IRS) limitations. Based on eligibility, SIAMCO matches 25 to 100 percent of employee contributions up to the first 8 percent of base salary and eligible bonuses deposited by the employee. SIAMCO may also make additional annual discretionary matching contributions based on operating profit. SIAMCO's total contributions to the 401(k) plan were \$22.6 million and \$20.4 million for 2019 and 2018, respectively. The 401(k) plan offers a guaranteed insurance contract written by SLIC as an investment option.

**Note 11 Income tax**

The provision for current federal income tax incurred as reported in the consolidated statutory financial statements is as follows:

Years ended December 31 (Millions)	2019	2018
Federal income tax expense on operations	\$ 63.5	\$ 65.4
Federal income tax on net capital gains and losses	0.8	5.8
Current federal income tax expense incurred	\$ 64.3	\$ 71.2

Current federal income tax expense incurred is based upon a consolidated income tax provision for SIAMCO and its subsidiaries, FMIC and its subsidiaries, and Dairyland County Mutual. The provision for current federal income tax is different from that which would be obtained by applying the statutory federal income tax rate to pretax book income, which includes operations and realized gains and losses. The significant items causing this difference are as follows:

Year ended December 31 (Millions)	2019	Effective rate
Current federal income tax expense computed at statutory rate	\$ 81.6	21.0 %
Nontaxable interest and dividends	(16.0)	(4.1) %
Unrecognized tax benefits	(7.1)	(1.8) %
Credits for holding certain tax credit bonds	(5.4)	(1.4) %
Amortization of tax goodwill	(2.0)	(0.5) %
Nondeductible expenses	1.7	0.4 %
Other	(2.1)	(0.5) %
Total income tax expense	\$ 50.7	13.1 %

Reconciliation of total income tax expense:

Year ended December 31 (Millions)	2019	Effective rate
Current federal income tax expense incurred	\$ 64.3	16.5 %
Change in net deferred income tax	(13.6)	(3.4) %
Total income tax expense	\$ 50.7	13.1 %

**Note 11 Income tax (continued)**

Year ended December 31 (Millions)	2018	Effective rate
Current federal income tax expense computed at statutory rate	\$ 67.6	21.0 %
Unrecognized tax benefits	25.4	7.9 %
Tax Cuts and Jobs Act of 2017 (TCJA) repeal of Sec. 847	(17.6)	(5.5) %
Nontaxable interest and dividends	(15.6)	(4.8) %
Prior year adjustment due to TCJA rate differences	(5.7)	(1.8) %
Credits for holding certain tax credit bonds	(4.6)	(1.4) %
Amortization of tax goodwill	(2.0)	(0.6) %
Nondeductible expenses	1.0	0.3 %
Other	0.8	0.2 %
<b>Total income tax expense</b>	<b>\$ 49.3</b>	<b>15.3 %</b>

## Reconciliation of total income tax expense:

Year ended December 31 (Millions)	2018	Effective rate
Current federal income tax expense incurred	\$ 71.2	22.1 %
Change in net deferred income tax	(21.9)	(6.8) %
<b>Total income tax expense</b>	<b>\$ 49.3</b>	<b>15.3 %</b>

The Company records federal deferred income tax assets and liabilities which reflect the financial statement impact of cumulative temporary differences between the tax and financial statement basis of assets and liabilities. There are no temporary differences for which deferred tax liabilities are not recognized. TCJA affects the reported amounts of deferred tax assets and deferred tax liabilities, notably, estimates for unpaid losses. Current results for 2019 reflect the actual impact of TCJA. Differences between prior estimates and actual amounts had no impact on net deferred tax assets.

**Note 11 Income tax (continued)**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

December 31 (Millions)	2019	2018	Change
<b>Deferred tax assets</b>			
Ordinary deferred tax assets			
Investments	\$ -	\$ 1.0	\$ (1.0)
Other nonadmitted assets	33.1	38.4	(5.3)
Unpaid losses and LAE	78.3	76.8	1.5
Pension and postretirement benefits	49.9	37.6	12.3
Unearned premiums	47.2	44.4	2.8
Net operating loss carryforward	7.4	7.7	(0.3)
Other	48.6	42.3	6.3
Total ordinary deferred tax assets	264.5	248.2	16.3
Statutory valuation allowance	(5.8)	(7.3)	1.5
Nonadmitted ordinary deferred tax assets	(11.1)	(6.7)	(4.4)
Admitted ordinary deferred tax assets	247.6	234.2	13.4
Capital deferred tax assets			
Investments	28.9	38.7	(9.8)
Other	1.9	-	1.9
Total capital deferred tax assets	30.8	38.7	(7.9)
Nonadmitted capital deferred tax assets	(0.6)	(0.2)	(0.4)
Admitted capital deferred tax assets	30.2	38.5	(8.3)
Total admitted deferred tax assets	277.8	272.7	5.1
<b>Deferred tax liabilities</b>			
Ordinary deferred tax liabilities			
Investments	42.3	33.3	9.0
Tax reform reserve revaluation	12.7	17.4	(4.7)
Fixed assets	32.6	33.6	(1.0)
Other	3.2	2.1	1.1
Total ordinary deferred tax liabilities	90.8	86.4	4.4
Capital deferred tax liabilities			
Investments	151.2	101.2	50.0
Other	1.3	1.5	(0.2)
Total capital deferred tax liabilities	152.5	102.7	49.8
Total deferred tax liabilities	243.3	189.1	54.2
Net admitted deferred tax assets	\$ 34.5	\$ 83.6	\$ (49.1)

**Note 11 Income tax (continued)**

Statutory accounting requires the reduction of deferred tax assets by a statutory valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the gross deferred tax assets will not be realized. Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. For SIAMCO and its subsidiaries, management's assessment is that it is more likely than not that gross deferred tax assets will be realized. FMIC and its subsidiaries have recorded a valuation allowance for 2019 and 2018 of \$5.8 million and \$7.3 million, respectively, to recognize only the portion of the deferred tax asset that in management's opinion is more likely than not to be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income are reduced or increased.

The net deferred tax assets and deferred tax liabilities are comprised of the following components:

December 31 (Millions)	2019			2018			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Total gross deferred tax assets	\$ 264.5	\$ 30.8	\$ 295.3	\$ 248.2	\$ 38.7	\$ 286.9	\$ 16.3	\$ (7.9)	\$ 8.4
Statutory valuation allowance adjustment	(5.8)	-	(5.8)	(7.3)	-	(7.3)	1.5	-	1.5
Adjusted gross deferred tax assets	258.7	30.8	289.5	240.9	38.7	279.6	17.8	(7.9)	9.9
Deferred tax assets nonadmitted	(11.1)	(0.6)	(11.7)	(6.7)	(0.2)	(6.9)	(4.4)	(0.4)	(4.8)
Subtotal: net admitted deferred tax asset	247.6	30.2	277.8	234.2	38.5	272.7	13.4	(8.3)	5.1
Deferred tax liabilities	90.8	152.5	243.3	86.4	102.7	189.1	4.4	49.8	54.2
Net admitted deferred tax assets (net deferred tax liability)	\$ 156.8	\$ (122.3)	\$ 34.5	\$ 147.8	\$ (64.2)	\$ 83.6	\$ 9.0	\$ (58.1)	\$ (49.1)

**Note 11 Income tax (continued)**

The amount of adjusted gross deferred tax assets admitted under each component of SSAP No. 101, *Income Taxes* is as follows:

December 31 (Millions)	2019			2018			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Federal income taxes paid in prior years recoverable through loss carrybacks	\$ 122.9	\$ 12.0	\$ 134.9	\$ 114.7	\$ 21.9	\$ 136.6	\$ 8.2	\$ (9.9)	\$ (1.7)
Adjusted gross deferred tax assets expected to be realized (excluding federal income taxes recoverable above) following the balance sheet date	34.7	4.0	38.7	38.9	2.6	41.5	(4.2)	1.4	(2.8)
Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	1,140.2	XXX	XXX	1,036.0	XXX	XXX	104.2
Adjusted gross deferred tax assets offset by gross deferred tax liabilities	90.0	14.2	104.2	80.6	14.0	94.6	9.4	0.2	9.6
Deferred tax assets admitted as a result of application of SSAP No. 101	\$ 247.6	\$ 30.2	\$ 277.8	\$ 234.2	\$ 38.5	\$ 272.7	\$ 13.4	\$ (8.3)	\$ 5.1

	2019	2018
Ratio percentage used to determine recovery period and threshold limitation	1,208%	1,199%
Amount of adjusted capital and surplus used to determine recovery period and limitation threshold above (millions)	\$ 5,958	\$ 5,372

The limitation threshold, ratio percentage, and adjusted capital and surplus are based on SIAMCO results only. The ratio limit for FMIC is 727% and 753% for 2019 and 2018, respectively. The ratio limit for Dairyland County Mutual is 23,959% and 27,612% for 2019 and 2018, respectively.

The Company has determined that the impact of tax planning strategies on the adjusted gross and net admitted deferred tax assets is as follows:

December 31	2019			2018			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Adjusted gross deferred tax assets (percent of total adjusted gross deferred tax assets)	1%	23%	3%	- %	53%	7%	1%	(30%)	(4%)
Net admitted adjusted gross deferred tax assets (percent of total net admitted adjusted gross deferred tax assets)	1%	23%	3%	- %	54%	8%	1%	(31%)	(5%)

**Note 11 Income tax (continued)**

The Company's tax planning strategies do not include the use of reinsurance.

The change in net deferred income tax is comprised of the following:

December 31 (Millions)	2019	2018	Change
Gross deferred tax assets	\$ 289.5	\$ 279.6	\$ 9.9
Gross deferred tax liabilities	(243.3)	(189.1)	(54.2)
Net deferred tax asset	\$ 46.2	\$ 90.5	(44.3)
Tax effect of surplus items:			
Unrealized gains and losses			65.9
Change in deferred income tax			21.6
Pension and post-retirement benefits			(8.8)
Nonadmitted assets			1.4
Other			(0.6)
Change in net deferred income tax			\$ 13.6

The amount of federal income taxes incurred that are available for recoupment, by tax character, in the event of future net losses are:

(Millions)	2019	2018	2017
Capital	\$ 0.8	\$ 35.1	\$ 64.4
Ordinary	75.9	73.2	-
Total	\$ 76.7	\$ 108.3	\$ 64.4

As of December 31, 2019, SIAMCO and its subsidiaries have no net operating loss carryforwards, no capital loss carryforwards, and no alternative minimum tax credit carryforwards. As of December 31, 2019, Florists had \$35.2 million in net operating loss carryforwards that expire 2031 through 2036. SIAMCO and its subsidiaries incurred federal income tax of \$76.7 million and \$79.8 million for the tax years of 2019 and 2018, respectively. Under Federal Internal Revenue Code, revised with the TCJA, ordinary losses can be carried back two years for non-life insurance entities while capital losses for both non-life and life companies can be carried back three years. Life entities are not permitted to carryback ordinary losses. Additionally, the Company did not have any protective tax deposits under Section 6603 of the Internal Revenue Service Code for years ended December 31, 2019 or 2018. The Company does not have any tax loss contingencies for which it is reasonably possible that the total liability will significantly increase.

The Company's federal income tax returns are routinely audited by the IRS. Federal income tax returns of the Company have been examined by the IRS through 2015. In the opinion of management, settlement of tax assessments related to open years is not expected to have a material adverse impact on the Company's policyholders' surplus. Tax years 2016 through 2018 remain open for the Company.

**Note 11 Income tax (continued)**

The following entities participate in SIAMCO’s consolidated federal income tax return allocation agreement and the filing of a consolidated federal income tax return:

- |  |   |
|--|---|
| Anchor Managing General Agency, Inc.             | Sentry Casualty Company                   |
| Dairyland Insurance Company                      | Sentry Equity Services, Inc.              |
| Dairyland National Insurance Company             | Sentry Insurance a Mutual Company         |
| Middlesex Insurance Company                      | Sentry Insurance Holding Company, Inc.    |
| Parker Centennial Assurance Company              | Sentry Life Insurance Company             |
| Patriot General Insurance Company                | Sentry Life Insurance Company of New York |
| Peak Property and Casualty Insurance Corporation | Sentry Select Insurance Company           |
| Productivity Advantage, Inc.                     | Viking Insurance Company of Wisconsin     |
| Sentry Aviation Services, Inc.                   | WAULECO, Inc.                             |

Florists’ Insurance Company and Florists’ Insurance Service, Inc. participate in FMIC’s consolidated federal income tax return allocation agreement and the filing of a consolidated federal income tax return.

The method of allocation between SIAMCO and its subsidiaries and FMIC and its subsidiaries is subject to written agreements, approved separately by SIAMCO’s and FMIC’s board of directors. Allocation under both agreements is based on separate return calculations with current credit for net losses. Intercompany tax balances between SIAMCO and its subsidiaries and FMIC and its subsidiaries are settled quarterly. Under both agreements, a final settlement is made within 90 days after filing the federal income tax return.

## Note 12 Commitments, contingencies, related-party transactions, and subsequent events

SIAMCO and its property and casualty insurance subsidiaries and affiliates have purchased structured settlement annuities from nonaffiliated insurance companies in settlement of claims liabilities. The claimant is the payee under these annuities, but SIAMCO and its subsidiaries and affiliates are contingently liable if the nonaffiliated insurance companies cannot meet their obligations under the annuities. The estimated contingent liability was less than \$25 million as of December 31, 2019 and 2018.

As disclosed in Note 3, the Company had \$659.7 million and \$676.6 million of partnership commitments as of December 31, 2019 and 2018, respectively.

In the normal course of business, there are various legal actions and proceedings pending against the Company. In the opinion of management, the ultimate resolution of these matters will not have a material adverse impact on the Company's consolidated statutory financial statements.

Premiums receivable, totaling \$159.6 million and \$159.7 million as of December 31, 2019 and 2018, respectively, were accrued as written under certain commercial property and casualty retrospectively rated policies. To minimize credit risk, the Company continually monitors the financial condition of these commercial risks and in certain circumstances requires collateral in the form of letters of credit, cash deposits, trusts, or bonds. Approximately 49 percent and 57 percent of the receivable balances in 2019 and 2018, respectively, were collateralized by letters of credit, cash deposits, trusts, or bonds. Net written premiums for these contracts were \$106.4 million and \$91.0 million for the years ended December 31, 2019 and 2018, respectively. These represent 4.4 percent and 4.0 percent of total net written premiums in 2019 and 2018, respectively.

Allowances for uncollectable premium balances totaled \$39.5 million and \$29.6 million as of December 31, 2019 and 2018, respectively. Premiums receivable on other than retrospectively rated policies totaled \$752.2 million and \$684.1 million as of December 31, 2019 and 2018, respectively. Of those amounts, \$1.9 million and \$2.8 million were nonadmitted as of December 31, 2019 and 2018, respectively.

State guaranty funds can assess the Company for losses of insolvent or rehabilitated companies. Mandatory assessments may be partially recovered through a reduction in future premium tax or through policyholder surcharges in some states. The Company is also subject to mandatory assessments for second injury funds in those states where workers' compensation business is written. The Company records a liability that estimates the ultimate loss from these assessments. The liability for guaranty fund assessment was \$2.0 million and \$3.5 million as of December 31, 2019 and 2018, respectively.

Dividends paid to SIAMCO and FMIC from their insurance subsidiaries, respectively, may be limited by regulatory requirements.

On December 15, 2017, FMIC paid cash of \$4.0 million to Federal Home Loan Bank of Chicago (FHLB) to retire the note payable issued in 2015 and notified the FHLB of its intent to withdraw membership. Per FHLB policy, FMIC's membership can first be terminated five years after notification is received. FMIC holds \$22 thousand of FHLB Class B capital stock, of which none is available for redemption as of December 31, 2019. FMIC held \$27 thousand of FHLB Class B capital stock as of December 31, 2018; \$4 thousand was redeemed during 2019. FMIC's membership stock will be returned by the FHLB upon termination.

Management of the Company has determined that there is no justification for substantial doubt regarding the Company's ability to continue as a going concern.

The Company evaluated subsequent events through March 2, 2020, the date the accompanying consolidated statutory financial statements were available to be issued. No significant subsequent events were identified.

**Note 13 Reconciliation of property and casualty combined annual statement to accompanying consolidated statutory financial statements**

The following is a reconciliation of the combined annual statement of Sentry Insurance a Mutual Company and its affiliated property and casualty Insurers (Combined P&C) to the consolidated statutory financial statements incorporated herein (Consolidated):

At and for the year ended December 31, 2019	Combined P&C	Life and health	Eliminations and other	Consolidated
Total assets (billions)	\$ 11.8	\$ 8.4	\$ (0.4)	\$ 19.8
Surplus (billions)	6.0	0.4	(0.4)	6.0
Total revenues (billions)	2.8	0.9	(0.1)	3.6
Net income (millions)	309.4	36.4	(21.5)	324.3

  

At and for the year ended December 31, 2018	Combined P&C	Life and health	Eliminations and other	Consolidated
Total assets (billions)	\$ 10.8	\$ 7.2	\$ (0.3)	\$ 17.7
Surplus (billions)	5.5	0.3	(0.3)	5.5
Total revenues (billions)	2.6	1.0	(0.1)	3.5
Net income (millions)	228.0	34.1	(11.5)	250.6

Life and health includes the balances of SLIC, SLONY, and PCAC. Eliminations and other primarily relates to the elimination of SIAMCO's ownership of the life and health companies and intercompany dividends.

KPMG LLP  
Suite 1050  
833 East Michigan Street  
Milwaukee, WI 53202-5337

### **Independent Auditors' Report on Supplementary Information**

The Board of Directors  
Sentry Insurance a Mutual Company and Subsidiaries and Affiliates:

We have audited the consolidated financial statements of Sentry Insurance a Mutual Company and its subsidiaries and affiliates, prepared in accordance with statutory accounting practices prescribed or permitted by the insurance departments of the states in which Sentry Insurance a Mutual Company and its subsidiaries and affiliates are domiciled, as of and for the years ended December 31, 2019 and 2018, and have issued our report thereon dated March 2, 2020, which contained an adverse opinion on the basis of U.S. generally accepted accounting principles and an unmodified opinion on the statutory basis of accounting described in note 1 to those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The information included in the Consolidating Schedule and the Property and Casualty Consolidating Schedule is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements but is information required to be presented by the insurance departments of the states in which Sentry Insurance a Mutual Company and its subsidiaries and affiliates are domiciled. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole as of and for the year ended December 31, 2019.

**KPMG LLP**

Milwaukee, Wisconsin  
March 2, 2020

SENTRY INSURANCE A MUTUAL COMPANY AND SUBSIDIARIES AND AFFILIATES

Consolidating Schedule  
Assets  
December 31, 2019  
(Millions)

Assets	Property & Casualty	Life & Health	Total	Reclassification and Elimination Entries		Consolidated
				Debits	Credits	
Cash and investments						
Bonds	\$ 7,321.7	2,757.5	10,079.2	-	-	\$ 10,079.2
Common stocks	1,777.6	-	1,777.6	-	356.3 [a]	1,421.3
Company occupied properties	164.8	-	164.8	-	-	164.8
Policy loans	-	10.7	10.7	-	-	10.7
Cash and short-term investments	50.3	26.4	76.7	-	-	76.7
Partnerships	1,281.5	-	1,281.5	-	-	1,281.5
Other	15.7	0.1	15.8	-	-	15.8
Total cash and investments	10,611.6	2,794.7	13,406.3	-	356.3	13,050.0
Receivables						
Insurance premiums and reinsurance	921.5	7.7	929.2	-	-	929.2
Interest and dividends	62.0	37.2	99.2	-	-	99.2
Federal income tax recoverable	0.5	-	0.5	-	0.5 [b]	-
Due from affiliates	32.6	-	32.6	-	32.6 [c]	-
Other	1.1	0.6	1.7	-	-	1.7
EDP equipment and operating software	8.5	-	8.5	-	-	8.5
Other assets	91.2	-	91.2	-	-	91.2
Net deferred tax asset	28.4	6.1	34.5	-	-	34.5
Separate account assets	-	5,538.3	5,538.3	-	-	5,538.3
Total assets	\$ 11,757.4	8,384.6	20,142.0	-	389.4	\$ 19,752.6

Reclassifications and Eliminations:

- [a] Elimination of investment in subsidiaries and affiliates.
- [b] Reclassification of federal income tax recoverable/payable.
- [c] Elimination of intercompany receivables and payables.

All amounts have been rounded to the nearest hundred thousand in preparing this schedule. Certain totals and/or combined numbers may be slightly off due to rounding.

See independent auditors' report on consolidating information.

# ANNUAL STATEMENT FOR THE YEAR 2019 OF THE SENTRY INSURANCE A MUTUAL COMPANY

## SENTRY INSURANCE A MUTUAL COMPANY AND SUBSIDIARIES AND AFFILIATES

### Consolidating Schedule Liabilities and Policyholders' Surplus December 31, 2019 (Millions)

Liabilities	Property & Casualty	Life & Health	Total	Reclassification and Elimination Entries		Consolidated
				Debits	Credits	
Property and casualty losses and loss expenses	\$ 3,696.0	-	3,696.0	72.0 [d]	-	\$ 3,624.0
Life and other future policy benefits	-	2,419.4	2,419.4	-	-	2,419.4
Accident and health unpaid claims and claim expenses	-	4.8	4.8	-	71.9 [d]	76.7
Unearned premiums	1,118.6	-	1,118.6	-	-	1,118.6
Other policyholder funds	9.8	1.3	11.1	-	-	11.1
Accounts payable and accrued expenses	847.6	10.6	858.2	-	-	858.2
Federal income tax payable	5.6	3.5	9.1	0.5 [b]	-	8.6
Other liabilities	78.4	26.6	105.0	7.5 [c]	-	97.5
Due to affiliates	0.2	24.8	25.0	25.0 [c]	-	-
Separate account liabilities	-	5,537.3	5,537.3	-	-	5,537.3
<b>Total liabilities</b>	<b>5,756.2</b>	<b>8,028.3</b>	<b>13,784.5</b>	<b>105.0</b>	<b>71.9</b>	<b>13,751.4</b>
<b>Policyholders' Surplus</b>						
Common stock	-	5.7	5.7	5.7 [a]	-	-
Paid-in capital	-	82.5	82.5	82.5 [a]	-	-
Unassigned surplus	6,001.2	268.1	6,269.3	268.1 [a]	-	6,001.2
<b>Total policyholders' surplus</b>	<b>6,001.2</b>	<b>356.3</b>	<b>6,357.5</b>	<b>356.3</b>	<b>-</b>	<b>6,001.2</b>
<b>Total liabilities and policyholders' surplus</b>	<b>\$ 11,757.4</b>	<b>8,384.6</b>	<b>20,142.0</b>	<b>461.3</b>	<b>71.9</b>	<b>\$ 19,752.6</b>

Reclassifications and Eliminations:

- [a] Elimination of investment in subsidiaries and affiliates.
- [b] Reclassification of federal income tax recoverable/payable.
- [c] Elimination of intercompany receivables and payables.
- [d] Reporting reclassification entries.

All amounts have been rounded to the nearest hundred thousand in preparing this schedule. Certain totals and/or combined numbers may be slightly off due to rounding.

See independent auditors' report on consolidating information.

# ANNUAL STATEMENT FOR THE YEAR 2019 OF THE SENTRY INSURANCE A MUTUAL COMPANY

## SENTRY INSURANCE A MUTUAL COMPANY AND SUBSIDIARIES AND AFFILIATES

Consolidating Schedule  
Statement of Operations  
Year Ended December 31, 2019  
(Millions)

	Property & Casualty	Life & Health	Total	Reclassification and Elimination Entries		Consolidated
				Debits	Credits	
<b>Revenues</b>						
Premiums earned	\$ 2,369.7	806.2	3,175.9	67.0 [a]	-	\$ 3,108.9
Net investment income	419.6	142.9	562.5	21.5 [b]	-	541.0
Total revenues	<u>2,789.3</u>	<u>949.1</u>	<u>3,738.4</u>	<u>88.5</u>	<u>-</u>	<u>3,649.9</u>
<b>Expenses</b>						
Insurance claims and policyholders' benefits	1,746.5	856.2	2,602.7	-	67.0 [a]	2,535.7
Operating expenses	657.8	53.9	711.7	-	-	711.7
Total expenses	<u>2,404.3</u>	<u>910.1</u>	<u>3,314.4</u>	<u>-</u>	<u>67.0</u>	<u>3,247.4</u>
Income before net realized gains	385.0	39.0	424.0	88.5	67.0	402.5
Net realized gains (losses), net of tax	<u>(15.3)</u>	<u>0.6</u>	<u>(14.7)</u>	<u>-</u>	<u>-</u>	<u>(14.7)</u>
Income from operations before income tax	369.7	39.6	409.3	88.5	67.0	387.8
Income tax expense	<u>60.3</u>	<u>3.2</u>	<u>63.5</u>	<u>-</u>	<u>-</u>	<u>63.5</u>
Net income	<u>\$ 309.4</u>	<u>36.4</u>	<u>345.8</u>	<u>88.5</u>	<u>67.0</u>	<u>\$ 324.3</u>

Reclassifications and Eliminations:

[a] Reporting reclassification entries.

[b] Elimination of intercompany dividends.

All amounts have been rounded to the nearest hundred thousand in preparing this schedule. Certain totals and/or combined numbers may be slightly off due to rounding.

See independent auditors' report on consolidating information.

# ANNUAL STATEMENT FOR THE YEAR 2019 OF THE SENTRY INSURANCE A MUTUAL COMPANY

## SENTRY INSURANCE A MUTUAL COMPANY AND SUBSIDIARIES AND AFFILIATES

### Consolidating Schedule Changes in Policyholders' Surplus Year Ended December 31, 2019 (Millions)

	Property & Casualty	Life & Health	Total	Reclassification and Elimination Entries		Consolidated
				Debits	Credits	
Balance January 1	\$ 5,450.0	342.9	5,792.9	342.9 [a]	-	\$ 5,450.0
Net income	309.4	36.4	345.8	88.5	67.0	324.3
Change in net unrealized capital gains and losses	238.9	-	238.9	13.4 [c]	20.3 [a],[c]	245.8
Change in nonadmitted assets	55.9	(1.9)	54.0	17.3 [c]	-	36.7
Deferred income tax	18.4	3.2	21.6	-	-	21.6
Dividends to stockholders	-	(21.5)	(21.5)	-	21.5 [b]	-
Postretirement benefit plans and other surplus changes	(71.4)	(2.8)	(74.2)	3.0 [c]	-	(77.2)
Net change in policyholders' surplus	<u>551.2</u>	<u>13.4</u>	<u>564.6</u>	<u>122.2</u>	<u>108.8</u>	<u>551.2</u>
Balance December 31	\$ <u>6,001.2</u>	<u>356.3</u>	<u>6,357.5</u>	<u>465.1</u>	<u>108.8</u>	\$ <u>6,001.2</u>

Reclassifications and Eliminations:

- [a] Elimination of investment in subsidiaries and affiliates.
- [b] Elimination of intercompany dividends.
- [c] Reporting reclassification entries.

All amounts have been rounded to the nearest hundred thousand in preparing this schedule. Certain totals and/or combined numbers may be slightly off due to rounding.

See independent auditors' report on consolidating information.

# ANNUAL STATEMENT FOR THE YEAR 2019 OF THE SENTRY INSURANCE A MUTUAL COMPANY

## SENTRY INSURANCE A MUTUAL COMPANY AND SUBSIDIARIES AND AFFILIATES

### Consolidating Schedule Statement of Cash Flow Year Ended December 31, 2019 (Millions)

	Property & Casualty	Life & Health	Total	Reclassification and Elimination Entries		Consolidated
				Debits	Credits	
<b>Operating activities</b>						
Net premiums received	\$ 2,368.0	770.1	3,138.1	-	-	\$ 3,138.1
Net investment income received	426.3	146.3	572.6	-	8.5 [a]	564.1
Claims and policy benefits paid	(1,233.0)	(828.8)	(2,061.8)	-	-	(2,061.8)
Operating expenses paid	(859.8)	(22.1)	(881.9)	-	-	(881.9)
Income taxes paid	(56.3)	6.0	(50.3)	-	-	(50.3)
Net cash provided by operating activities	645.2	71.5	716.7	-	8.5	708.2
<b>Investing activities</b>						
Sales of:						
Bonds	974.1	218.3	1,192.4	-	11.6 [b]	1,180.8
Stocks	578.6	-	578.6	-	-	578.6
Partnerships	144.2	-	144.2	-	-	144.2
Other	-	0.4	0.4	-	-	0.4
Purchases of:						
Bonds	(1,616.3)	(264.8)	(1,881.1)	11.6 [b]	-	(1,869.5)
Stocks	(489.8)	-	(489.8)	-	-	(489.8)
Partnerships	(192.2)	-	(192.2)	-	-	(192.2)
Other	(23.9)	-	(23.9)	-	-	(23.9)
Net cash utilized in investing activities	(625.3)	(46.1)	(671.4)	11.6	11.6	(671.4)
Other cash applied	(25.2)	(6.7)	(31.9)	8.5 [a]	-	(23.4)
Change in cash and short-term investments	(5.3)	18.7	13.4	20.1	20.1	13.4
Balance January 1	55.6	7.7	63.3	-	-	63.3
Balance December 31	\$ 50.3	26.4	76.7	20.1	20.1	\$ 76.7

Reclassifications and Eliminations:

- [a] Elimination of intercompany dividends.
- [b] Elimination of intercompany bond transfers.

All amounts have been rounded to the nearest hundred thousand in preparing this schedule. Certain totals and/or combined numbers may be slightly off due to rounding.

See independent auditors' report on consolidating information.

# ANNUAL STATEMENT FOR THE YEAR 2019 OF THE SENTRY INSURANCE A MUTUAL COMPANY

## SENTRY INSURANCE A MUTUAL COMPANY AND SUBSIDIARIES AND AFFILIATES

### Property and Casualty Consolidating Schedule Assets December 31, 2019 (Millions)

Assets	Sentry Insurance a Mutual Company	Dairyland Insurance Company	Dairyland County Mutual Insurance Company of Texas	Dairyland National Insurance Company	Florists' Mutual Insurance Company	Florists' Insurance Company	Middlesex Insurance Company	Patriot General Insurance Company	Sentry Lloyds of Texas	Sentry Select Insurance Company	Sentry Casualty Company	Viking Insurance Company of Wisconsin	Peak Property and Casualty Insurance Corporation	Total	Reclassification and Elimination Entries		Consolidated Property and Casualty
															Debits	Credits	
Cash and investments																	
Bonds	\$ 4,101.4	1,124.4	12.9	4.7	100.1	5.0	609.1	23.3	7.0	648.8	302.7	341.4	40.9	7,321.7	-	-	\$ 7,321.7
Common stocks	2,990.4	6.4	-	-	5.1	-	25.3	-	-	-	-	28.9	-	3,056.1	-	1,278.5 [a]	1,777.6
Company occupied properties	155.3	-	-	-	5.5	-	-	-	-	-	-	4.0	-	164.8	-	-	164.8
Cash and short-term investments	(5.8)	19.3	0.4	0.3	1.7	0.1	8.5	3.2	0.4	13.7	4.2	0.8	3.5	50.3	-	-	50.3
Partnerships	1,254.9	57.5	-	-	-	-	23.2	-	-	9.2	-	-	-	1,344.8	-	63.3 [b],[c]	1,281.5
Other	13.4	-	-	-	2.3	-	-	-	-	-	-	-	-	15.7	-	-	15.7
Total cash and investments	8,509.6	1,207.6	13.3	5.0	114.7	5.1	666.1	26.5	7.4	671.7	306.9	375.1	44.4	11,953.4	-	1,341.8	10,611.6
Receivables																	
Insurance premiums and reinsurance	856.4	246.4	8.9	-	22.1	0.2	140.4	0.4	-	198.0	42.1	140.4	1.4	1,656.7	-	735.2 [d]	921.5
Interest and dividends	35.3	8.6	0.1	-	0.7	-	5.1	0.3	-	5.6	2.7	3.1	0.5	62.0	-	-	62.0
Federal income tax recoverable	-	0.3	-	-	-	-	-	-	-	-	-	-	0.2	-	-	0.5	
Due from affiliates	51.4	-	1.6	-	1.0	0.2	3.0	-	0.4	6.6	19.4	4.4	2.9	90.9	-	58.3 [e]	32.6
Other	0.6	0.2	-	-	-	-	0.1	-	-	0.1	-	0.1	-	1.1	-	-	1.1
EDP equipment and operating software	8.5	-	-	-	-	-	-	-	-	-	-	-	-	8.5	-	-	8.5
Other assets	49.3	15.8	-	-	1.1	-	9.0	-	-	9.1	2.3	4.5	0.1	91.2	-	-	91.2
Net deferred tax asset	-	15.6	-	-	1.6	-	10.3	-	-	9.5	2.7	10.5	-	50.2	-	21.8 [f]	28.4
Total assets	\$ 9,511.1	1,494.5	23.9	5.0	141.2	5.5	834.0	27.2	7.8	900.6	376.1	538.1	49.5	13,914.5	-	2,157.1	\$ 11,757.4

Reclassifications and Eliminations:  
 [a] Elimination of investment in subsidiaries.  
 [b] Elimination of intercompany surplus notes.  
 [c] Elimination of intercompany loan.  
 [d] Elimination of intercompany reinsurance balances.  
 [e] Elimination of intercompany receivables and payables.  
 [f] Reclassification of net deferred tax asset/liability.

All amounts have been rounded to the nearest hundred thousand in preparing this schedule. Certain totals and/or combined numbers may be slightly off due to rounding.

See independent auditors' report on consolidating information.

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# ANNUAL STATEMENT FOR THE YEAR 2019 OF THE SENTRY INSURANCE A MUTUAL COMPANY

## SENTRY INSURANCE A MUTUAL COMPANY AND SUBSIDIARIES AND AFFILIATES

### Property and Casualty Consolidating Schedule Liabilities and Policyholders' Surplus December 31, 2019 (Millions)

Liabilities	Sentry Insurance a Mutual Company	Dairyland Insurance Company	Dairyland County Mutual Insurance Company of Texas	Dairyland National Insurance Company	Florists' Mutual Insurance Company	Florists' Insurance Company	Middlesex Insurance Company	Patriot General Insurance Company	Sentry Lloyds of Texas	Sentry Select Insurance Company	Sentry Casualty Company	Viking Insurance Company of Wisconsin	Peak Property and Casualty Insurance Corporation	Total	Reclassification and Elimination Entries		Consolidated Property and Casualty	
															Debits	Credits		
Property and casualty losses and loss expenses	\$ 2,204.9	703.7	-	-	39.9	-	397.4	-	-	397.0	99.3	199.9	-	4,042.1	346.1	[d]	-	\$ 3,696.0
Unearned premiums	604.0	195.8	-	-	11.2	-	111.8	-	-	111.9	28.0	55.9	-	1,118.6	-	-	-	1,118.6
Other policyholder funds	5.3	1.7	-	-	0.1	-	1.0	-	-	1.0	0.2	0.5	-	9.8	-	-	-	9.8
Accounts payable and accrued expenses	462.2	84.1	-	-	5.0	-	51.3	-	-	73.6	145.3	24.1	2.0	847.6	-	-	-	847.6
Federal income tax payable	0.6	-	-	-	-	-	1.7	-	-	1.7	0.7	0.9	-	5.6	-	-	-	5.6
Net deferred tax liability	21.5	-	-	-	-	-	-	0.2	-	-	-	-	0.1	21.8	21.8	[f]	-	-
Other liabilities	206.3	10.2	11.3	(0.2)	56.1	0.4	22.0	0.5	0.3	84.2	30.0	84.3	7.5	512.9	434.5	[c],[d]	-	78.4
Due to affiliates	39.5	17.5	-	0.2	-	-	-	1.2	-	-	-	-	-	58.4	58.2	[e]	-	0.2
<b>Total liabilities</b>	<b>3,544.3</b>	<b>1,013.0</b>	<b>11.3</b>	<b>-</b>	<b>112.3</b>	<b>0.4</b>	<b>585.2</b>	<b>1.9</b>	<b>0.3</b>	<b>669.4</b>	<b>303.5</b>	<b>365.6</b>	<b>9.6</b>	<b>6,616.8</b>	<b>860.6</b>	<b>-</b>	<b>-</b>	<b>5,756.2</b>
<b>Policyholders' Surplus</b>																		
Common stock	-	4.0	-	3.0	-	1.5	4.2	4.0	-	5.0	4.7	3.0	3.5	32.9	32.9	[a]	-	-
Paid-in capital	-	12.5	-	2.0	-	2.0	12.0	4.5	0.2	26.9	31.4	149.3	3.4	244.2	244.2	[a]	-	-
Guaranty funds	-	-	-	-	-	-	-	-	1.9	-	-	-	-	1.9	1.9	[a]	-	-
Surplus notes	-	-	-	-	7.0	-	-	-	-	-	-	-	11.0	18.0	18.0	[b]	-	-
Unassigned surplus	5,966.8	465.0	12.6	-	21.9	1.6	232.6	16.8	5.4	199.3	36.5	20.2	22.0	7,000.7	999.5	[a]	-	6,001.2
<b>Total policyholders' surplus</b>	<b>5,966.8</b>	<b>481.5</b>	<b>12.6</b>	<b>5.0</b>	<b>28.9</b>	<b>5.1</b>	<b>248.8</b>	<b>25.3</b>	<b>7.5</b>	<b>231.2</b>	<b>72.6</b>	<b>172.5</b>	<b>39.9</b>	<b>7,297.7</b>	<b>1,296.5</b>	<b>-</b>	<b>-</b>	<b>6,001.2</b>
<b>Total liabilities and policyholders' surplus</b>	<b>\$ 9,511.1</b>	<b>1,494.5</b>	<b>23.9</b>	<b>5.0</b>	<b>141.2</b>	<b>5.5</b>	<b>834.0</b>	<b>27.2</b>	<b>7.8</b>	<b>900.6</b>	<b>376.1</b>	<b>538.1</b>	<b>49.5</b>	<b>13,914.5</b>	<b>2,157.1</b>	<b>-</b>	<b>-</b>	<b>\$ 11,757.4</b>

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Reclassifications and Eliminations:  
 [a] Elimination of investment in subsidiaries.  
 [b] Elimination of intercompany surplus notes.  
 [c] Elimination of intercompany loan.  
 [d] Elimination of intercompany reinsurance balances.  
 [e] Elimination of intercompany receivables and payables.  
 [f] Reclassification of net deferred tax asset/liability.

All amounts have been rounded to the nearest hundred thousand in preparing this schedule. Certain totals and/or combined numbers may be slightly off due to rounding.

See independent auditors' report on consolidating information.

# ANNUAL STATEMENT FOR THE YEAR 2019 OF THE SENTRY INSURANCE A MUTUAL COMPANY

SENTRY INSURANCE A MUTUAL COMPANY AND SUBSIDIARIES AND AFFILIATES

Property and Casualty Consolidating Schedule  
Statement of Operations  
Year Ended December 31, 2019  
(Millions)

	Sentry Insurance a Mutual Company	Dairyland Insurance Company	Dairyland County Mutual Insurance Company of Texas	Dairyland National Insurance Company	Florists' Mutul Insurance Company	Florists' Insurance Company	Middlesex Insurance Company	Patriot General Insurance Company	Sentry Lloyds of Texas	Sentry Select Insurance Company	Sentry Casualty Company	Viking Insurance Company of Wisconsin	Peak Property and Casualty Insurance Corporation	Total	Reclassification and Elimination Entries		Consolidated Property and Casualty
															Debits	Credits	
<b>Revenues</b>																	
Premiums earned	\$ 1,279.7	414.7	-	-	23.7	-	236.9	-	-	237.0	59.2	118.5	-	2,369.7	-	-	\$ 2,369.7
Net investment income	364.0	47.0	0.4	-	1.5	0.1	23.1	0.8	0.1	24.9	9.9	11.3	0.4	483.5	63.9 [a]	-	419.6
<b>Total revenues</b>	<b>1,643.7</b>	<b>461.7</b>	<b>0.4</b>	<b>-</b>	<b>25.2</b>	<b>0.1</b>	<b>260.0</b>	<b>0.8</b>	<b>0.1</b>	<b>261.9</b>	<b>69.1</b>	<b>129.8</b>	<b>0.4</b>	<b>2,853.2</b>	<b>63.9</b>	<b>-</b>	<b>2,789.3</b>
<b>Expenses</b>																	
Insurance claims and policyholders' benefits	943.1	305.6	-	-	17.4	-	174.7	-	-	174.7	43.7	87.3	-	1,746.5	-	-	1,746.5
Operating expenses	355.1	115.1	0.4	-	6.6	-	65.7	-	(0.1)	65.7	16.4	32.9	-	657.8	-	-	657.8
<b>Total expenses</b>	<b>1,298.2</b>	<b>420.7</b>	<b>0.4</b>	<b>-</b>	<b>24.0</b>	<b>-</b>	<b>240.4</b>	<b>-</b>	<b>(0.1)</b>	<b>240.4</b>	<b>60.1</b>	<b>120.2</b>	<b>-</b>	<b>2,404.3</b>	<b>-</b>	<b>-</b>	<b>2,404.3</b>
Income before net realized gains (losses)	345.5	41.0	-	-	1.2	0.1	19.6	0.8	0.2	21.5	9.0	9.6	0.4	448.9	63.9	-	385.0
Net realized gains (losses), net of tax	(13.2)	(1.3)	-	-	-	-	(1.7)	-	-	0.1	(0.2)	0.1	-	(16.2)	-	0.9 [b]	(15.3)
<b>Income from operations before income tax</b>	<b>332.3</b>	<b>39.7</b>	<b>-</b>	<b>-</b>	<b>1.2</b>	<b>0.1</b>	<b>17.9</b>	<b>0.8</b>	<b>0.2</b>	<b>21.6</b>	<b>8.8</b>	<b>9.7</b>	<b>0.4</b>	<b>432.7</b>	<b>63.9</b>	<b>0.9</b>	<b>369.7</b>
Income tax expense	37.6	8.5	-	-	-	-	5.1	0.1	-	4.9	1.6	2.5	-	60.3	-	-	60.3
<b>Net income</b>	<b>\$ 294.7</b>	<b>31.2</b>	<b>-</b>	<b>-</b>	<b>1.2</b>	<b>0.1</b>	<b>12.8</b>	<b>0.7</b>	<b>0.2</b>	<b>16.7</b>	<b>7.2</b>	<b>7.2</b>	<b>0.4</b>	<b>372.4</b>	<b>63.9</b>	<b>0.9</b>	<b>\$ 309.4</b>

Reclassifications and Eliminations:

[a] Elimination of intercompany dividends.

[b] Elimination of intercompany gains (losses).

All amounts have been rounded to the nearest hundred thousand in preparing this schedule. Certain totals and/or combined numbers may be slightly off due to rounding.

See independent auditors' report on consolidating information.

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# ANNUAL STATEMENT FOR THE YEAR 2019 OF THE SENTRY INSURANCE A MUTUAL COMPANY

SENTRY INSURANCE A MUTUAL COMPANY AND SUBSIDIARIES AND AFFILIATES

Property and Casualty Consolidating Schedule  
Changes in Policyholders' Surplus  
Year Ended December 31, 2019  
(Millions)

	Sentry Insurance a Mutual Company	Dairyland Insurance Company	Dairyland County Mutual Insurance Company of Texas	Dairyland National Insurance Company	Florists' Mutual Insurance Company	Florists' Insurance Company	Middlesex Insurance Company	Patriot General Insurance Company	Sentry Lloyds of Texas	Sentry Select Insurance Company	Sentry Casualty Company	Viking Insurance Company of Wisconsin	Peak Property and Casualty Insurance Corporation	Total	Reclassification and Elimination Entries		Consolidated Property and Casualty	
															Debits	Credits		
<b>Common stock:</b>																		
Balance at beginning of year	\$ -	4.0	-	-	-	1.5	4.2	4.0	-	5.0	4.7	3.0	3.0	29.4	29.4	[a]	-	\$ -
Sale of common stock	-	-	-	3.0	-	-	-	-	-	-	-	-	0.5	3.5	3.5	[a]	-	-
Balance at end of year	-	4.0	-	3.0	-	1.5	4.2	4.0	-	5.0	4.7	3.0	3.5	32.9	32.9		-	-
<b>Paid-in capital:</b>																		
Balance at beginning of year	-	12.5	-	-	-	2.0	12.0	4.5	0.2	26.9	31.4	149.3	3.4	242.1	242.1	[a]	-	-
Capital contribution	-	-	-	2.0	-	-	-	-	-	-	-	-	-	2.0	2.0	[a]	-	-
Balance at end of year	-	12.5	-	2.0	-	2.0	12.0	4.5	0.2	26.9	31.4	149.3	3.4	244.1	244.1		-	-
<b>Guaranty funds:</b>																		
Balance at beginning of year	-	-	-	-	-	-	-	-	1.9	-	-	-	-	1.9	1.9	[a]	-	-
Additional contribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-	-
Balance at end of year	-	-	-	-	-	-	-	-	1.9	-	-	-	-	1.9	1.9		-	-
<b>Surplus notes:</b>																		
Balance at beginning of year	-	-	-	-	7.0	-	-	-	-	-	-	-	11.0	18.0	18.0	[b]	-	-
Change in notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-	-
Balance at end of year	-	-	-	-	7.0	-	-	-	-	-	-	-	11.0	18.0	18.0		-	-
<b>Unassigned surplus:</b>																		
Balance at beginning of year	5,416.8	454.2	12.6	-	20.6	1.6	227.1	16.9	5.3	194.0	34.6	18.9	21.6	6,424.2	974.2	[a]	-	5,450.0
Net income	294.7	31.2	-	-	1.2	0.1	12.8	0.7	0.2	16.7	7.2	7.2	0.4	372.4	63.0		-	309.4
Change in net unrealized capital gains and losses	258.9	2.3	-	-	-	-	2.9	-	-	0.2	-	0.7	-	265.0	26.1	[a],[d]	-	238.9
Change in nonadmitted assets	57.6	0.5	-	-	(1.3)	-	-	-	-	(0.5)	(0.1)	(0.3)	-	55.9	-		-	55.9
Deferred income tax	11.5	1.5	-	-	1.4	-	1.9	-	-	1.3	0.3	0.7	-	18.6	0.2	[d]	-	18.4
Dividends to stockholders	-	(25.0)	-	-	-	(0.1)	(12.5)	(0.8)	-	(13.0)	(5.5)	(7.0)	-	(63.9)	-		63.9	[c]
Postretirement benefit plans and other surplus changes	(72.7)	0.3	-	-	-	-	0.4	-	-	0.6	-	-	-	(71.4)	-		-	(71.4)
Net change in unassigned surplus	550.0	10.8	-	-	1.3	-	5.5	(0.1)	0.2	5.3	1.9	1.3	0.4	576.6	89.3		63.9	551.2
Balance at end of year	5,966.8	465.0	12.6	-	21.9	1.6	232.6	16.8	5.5	199.3	36.5	20.2	22.0	7,000.8	1,063.5		63.9	6,001.2
<b>Total policyholders' surplus at end of year</b>	<b>\$ 5,966.8</b>	<b>481.5</b>	<b>12.6</b>	<b>5.0</b>	<b>28.9</b>	<b>5.1</b>	<b>248.8</b>	<b>25.3</b>	<b>7.5</b>	<b>231.2</b>	<b>72.6</b>	<b>172.5</b>	<b>39.9</b>	<b>7,297.7</b>	<b>1,360.4</b>		<b>63.9</b>	<b>\$ 6,001.2</b>

Reclassifications and Eliminations:  
[a] Elimination of investment in subsidiaries.  
[b] Elimination of intercompany surplus notes.  
[c] Elimination of intercompany dividends.  
[d] Elimination of intercompany gains (losses).

All amounts have been rounded to the nearest hundred thousand in preparing this schedule. Certain totals and/or combined numbers may be slightly off due to rounding.

See independent auditors' report on consolidating information.

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# ANNUAL STATEMENT FOR THE YEAR 2019 OF THE SENTRY INSURANCE A MUTUAL COMPANY

SENTRY INSURANCE A MUTUAL COMPANY AND SUBSIDIARIES AND AFFILIATES

Property and Casualty Consolidating Schedule  
Statement of Cash Flow  
Year Ended December 31, 2019  
(Millions)

	Sentry Insurance a Mutual Company	Dairyland Insurance Company	Dairyland County Mutual Insurance Company of Texas	Dairyland National Insurance Company	Florists' Mututal Insurance Company	Florists' Insurance Company	Middlesex Insurance Company	Patriot General Insurance Company	Sentry Lloyds of Texas	Sentry Select Insurance Company	Sentry Casualty Company	Viking Insurance Company of Wisconsin	Peak Property and Casualty Insurance Corporation	Total	Reclassification and Elimination Entries		Consolidated Property and Casualty	
															Debits	Credits		
<b>Operating activities</b>																		
Net premiums received	\$ 1,266.3	395.2	1.2	(0.2)	26.2	0.1	239.1	0.3	0.1	244.1	63.5	126.9	5.2	2,368.0	-	-	\$ 2,368.0	
Net investment income received	311.8	49.0	0.5	-	1.9	0.1	23.4	0.9	0.1	26.8	11.1	12.4	0.5	438.5	-	12.2 [a]	426.3	
Claims and policy benefits paid	(660.7)	(212.3)	(0.7)	-	(16.1)	-	(120.7)	(0.3)	-	(125.9)	(27.2)	(69.9)	0.8	(1,233.0)	-	-	(1,233.0)	
Operating expenses paid	(430.7)	(162.9)	(0.4)	-	(9.3)	-	(93.1)	-	0.1	(93.1)	(23.3)	(47.1)	-	(859.8)	-	-	(859.8)	
Income taxes recovered (paid)	(36.0)	(10.3)	-	-	0.2	(0.2)	(3.4)	(0.1)	-	(3.6)	(1.2)	(1.7)	-	(56.3)	-	-	(56.3)	
Net cash provided by operating activities	450.7	58.7	0.6	(0.2)	2.9	-	45.3	0.8	0.3	48.3	22.9	20.6	6.5	657.4	-	12.2	645.2	
<b>Investing activities</b>																		
<b>Sales of:</b>																		
Bonds	543.5	167.4	2.9	0.4	13.4	0.9	59.4	3.4	-	108.4	39.2	31.9	4.4	975.2	-	1.1 [b]	974.1	
Stocks	577.3	0.7	-	-	-	-	0.3	-	-	0.3	-	-	-	578.6	-	-	578.6	
Partnerships	131.0	6.7	-	-	-	-	2.2	-	-	4.3	-	-	-	144.2	-	-	144.2	
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Purchases of:</b>																		
Bonds	(980.3)	(235.8)	(3.9)	(5.1)	(17.5)	(0.8)	(101.5)	(2.6)	-	(152.8)	(61.6)	(49.0)	(6.5)	(1,617.4)	1.1 [b]	-	(1,616.3)	
Stocks	(493.5)	(0.7)	-	-	-	-	(0.3)	-	-	(0.3)	-	(0.5)	-	(495.3)	5.5 [c]	-	(489.8)	
Partnerships	(190.1)	(1.3)	-	-	-	-	(0.4)	-	-	(0.4)	-	-	-	(192.2)	-	-	(192.2)	
Other	(19.8)	-	-	-	-	-	-	-	-	-	-	(4.1)	-	(23.9)	-	-	(23.9)	
Net cash provided (utilized) by investing activities	(431.9)	(63.0)	(1.0)	(4.7)	(4.1)	0.1	(40.3)	0.8	-	(40.5)	(22.4)	(21.7)	(2.1)	(630.8)	6.6	1.1	(625.3)	
Other cash provided (applied)	(38.7)	17.0	(0.2)	5.2	1.6	(0.1)	(5.8)	0.8	(0.1)	(0.2)	(2.6)	(5.7)	(3.1)	(31.9)	6.7 [a],[c]	-	(25.2)	
Net change in cash and short-term investments	(19.9)	12.7	(0.6)	0.3	0.4	(0.0)	(0.8)	2.4	0.2	7.6	(2.1)	(6.8)	1.3	(5.3)	13.3	13.3	(5.3)	
Balance January 1	14.1	6.6	1.0	-	1.3	0.1	9.3	0.8	0.2	6.1	6.3	7.6	2.2	55.6	-	-	55.6	
Balance December 31	\$ (5.8)	19.3	0.4	0.3	1.7	0.1	8.5	3.2	0.4	13.7	4.2	0.8	3.5	50.3	13.3	13.3	\$ 50.3	

Reclassifications and Eliminations:

- [a] Elimination of intercompany dividends.
- [b] Elimination of intercompany bond transfers.
- [c] Elimination of intercompany capital contributions.

All amounts have been rounded to the nearest hundred thousand in preparing this schedule. Certain totals and/or combined numbers may be slightly off due to rounding.

See independent auditors' report on consolidating information.

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KPMG LLP  
Suite 1050  
833 East Michigan Street  
Milwaukee, WI 53202-5337

## Independent Auditors' Report on Supplementary Information

The Board of Directors  
Sentry Insurance a Mutual Company and Subsidiaries and Affiliates:

We have audited the consolidated financial statements of Sentry Insurance a Mutual Company and its subsidiaries and affiliates, prepared in accordance with statutory accounting practices prescribed or permitted by the insurance departments of the states in which Sentry Insurance a Mutual Company and its subsidiaries and affiliates are domiciled, as of and for the years ended December 31, 2019 and 2018, and have issued our report thereon dated March 2, 2020, which contained an adverse opinion on the basis of U.S. generally accepted accounting principles and an unmodified opinion on the statutory basis of accounting described in note 1 to those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in the Supplemental Summary Investment Schedule, Supplemental Investment Risks Interrogatories Schedule, and Supplemental Schedule of Reinsurance Disclosures is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements but is information required to be presented by the insurance departments of the states in which Sentry Insurance a Mutual Company and its subsidiaries and affiliates are domiciled. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole as of and for the year ended December 31, 2019.

KPMG LLP

Milwaukee, Wisconsin  
March 2, 2020

ANNUAL STATEMENT FOR THE YEAR 2019 OF THE SENTRY INSURANCE A MUTUAL COMPANY

ANNUAL STATEMENT FOR THE YEAR 2019 OF THE SENTRY INSURANCE A MUTUAL COMPANY Schedule 1

Sentry Insurance a Mutual Company and Subsidiaries  
Supplemental Summary Investment Schedule  
December 31, 2019

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total Amount	Percentage
1. Bonds (Schedule D, Part 1)						
1.1 U.S. Governments	\$ 1,303,599,902	9.989%	\$ 1,303,599,902	\$ -	\$ 1,303,599,902	9.989%
1.2 All Other Government	57,523,952	0.441%	57,523,952	-	57,523,952	0.441%
1.3 U.S. States, Territories and Possessions, etc., Guaranteed	58,400,464	0.448%	58,400,464	-	58,400,464	0.448%
1.4 U.S. Political Subdivisions of States, Territories and Possessions, Guaranteed	432,945,176	3.318%	432,945,176	-	432,945,176	3.318%
1.5 U.S. Special Revenue & Special Assessment Obligations, etc., Non-Guaranteed	2,214,507,995	16.969%	2,214,507,995	-	2,214,507,995	16.969%
1.6 Industrial and Miscellaneous	5,790,154,933	44.369%	5,790,154,933	-	5,790,154,933	44.369%
1.7 Hybrid Securities	-	-	-	-	-	-
1.8 Parent, Subsidiaries and Affiliates	-	-	-	-	-	-
1.9 SVO Identified Funds	-	-	-	-	-	-
1.10 Bank Loans	222,080,465	1.702%	222,080,465	-	222,080,465	1.702%
1.11 Total Long-Term Bonds	10,079,212,887	77.235%	10,079,212,887	-	10,079,212,887	77.235%
2. Preferred Stock (Schedule D, part 2, Section 1)						
2.1 Industrial and Miscellaneous (Unaffiliated)	-	-	-	-	-	-
2.2 Parent Subsidiaries and Affiliates	-	-	-	-	-	-
3. Common Stocks (Schedule D, Part 2, Section 2)						
3.1 Industrial and Miscellaneous (Unaffiliated) Publicly Traded	1,419,808,462	10.880%	1,419,808,462	-	1,419,808,462	10.880%
3.2 Industrial and Miscellaneous (Unaffiliated) Other	1,457,896	0.011%	1,457,896	-	1,457,896	0.011%
3.3 Parent, Subsidiaries and Affiliates Publicly Traded	-	-	-	-	-	-
3.4 Parent, Subsidiaries and Affiliates Other	68,464	0.001%	68,464	-	68,464	0.001%
3.5 Mutual Funds	-	-	-	-	-	-
3.6 Total Common Stocks	1,421,334,822	10.891%	1,421,334,822	-	1,421,334,822	10.891%
4. Mortgage Loans (Schedule B)						
4.1 Farm Mortgages	-	-	-	-	-	-
4.2 Residential Mortgages	-	-	-	-	-	-
4.3 Commercial Loans	-	-	-	-	-	-
4.4 Mezzanine Real Estate Loans	-	-	-	-	-	-
4.5 Total Mortgages	-	-	-	-	-	-
5. Real Estate Investments (Schedule A)						
5.1 Property occupied by company	164,792,202	1.263%	164,792,202	-	164,792,202	1.263%
5.2 Property held for production of income	5,539,962	0.042%	5,539,962	-	5,539,962	0.042%
5.3 Property held for sale	2,278,701	0.017%	2,278,701	-	2,278,701	0.017%
6. Cash, Cash Equivalents and Short-Term Investments						
6.1 Cash (Schedule E, Part 1)	(116,290,982)	-0.891%	(116,290,982)	-	(116,290,982)	-0.891%
6.2 Cash Equivalents (Schedule E, Part 2)	192,593,216	1.476%	192,593,216	-	192,593,216	1.476%
6.3 Short-Term Investments (Schedule DA)	372,067	0.003%	372,067	-	372,067	0.003%
6.4 Total Cash, Cash Equivalents and Short-Term Investments	76,674,301	0.588%	76,674,301	-	76,674,301	0.588%
7. Contract Loans	10,710,475	0.082%	10,710,475	-	10,710,475	0.082%
8. Derivatives (Schedule DB)	-	-	-	-	-	-
9. Other Invested Assets (Schedule BA)	1,281,518,181	9.820%	1,281,518,181	-	1,281,518,181	9.820%
10. Receivables for Securities	7,999,545	0.061%	7,983,063	-	7,983,063	0.061%
11. Securities Lending (Schedule DL, Part 1)	-	-	-	-	-	-
12. Aggregate Write-Ins for Invested Assets	-	-	-	-	-	-
13. Total invested assets	\$ 13,050,061,074	100.000%	\$ 13,050,044,592	\$ -	\$ 13,050,044,592	100.000%

**Sentry Insurance a Mutual Company and Subsidiaries and Affiliates  
Supplemental Investment Risks Interrogatories Schedule  
December 31, 2019**

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. \$ 14,214,253,479

2. Ten largest exposures to a single issuer/borrower/investment.

	<u>Issuer</u>	<u>Description of Exposure</u>	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
2.01	APPLE INC	Equity-Publicly Traded and Other Debt/Unaffiliated	\$ 93,201,534	0.7%
2.02	MICROSOFT CORP	Equity-Publicly Traded and Other Debt/Unaffiliated	\$ 91,995,995	0.6%
2.03	BERKSHIRE HATHAWAY	Equity-Publicly Traded and Other Debt/Unaffiliated	\$ 72,648,972	0.5%
2.04	AMAZON.COM INC	Equity-Publicly Traded and Other Debt/Unaffiliated	\$ 56,499,977	0.4%
2.05	DUKE ENERGY	Other Debt/Unaffiliated	\$ 56,426,184	0.4%
2.06	CONOCOPHILLIPS	Equity-Publicly Traded and Other Debt/Unaffiliated	\$ 50,490,665	0.4%
2.07	NIAGARA MOHAWK	Other Debt/Unaffiliated	\$ 49,998,002	0.4%
2.08	FIRST ENERGY	Other Debt/Unaffiliated	\$ 48,473,423	0.3%
2.09	IBM	Equity-Publicly Traded and Other Debt/Unaffiliated	\$ 48,009,815	0.3%
2.10	CVS HEALTH CORP	Equity-Publicly Traded and Other Debt/Unaffiliated	\$ 47,660,846	0.3%

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

<u>Bonds</u>				
3.01	NAIC-1		\$ 8,037,925,526	56.5%
3.02	NAIC-2		\$ 1,691,090,451	11.9%
3.03	NAIC-3		\$ 176,325,225	1.2%
3.04	NAIC-4		\$ 129,158,796	0.9%
3.05	NAIC-5		\$ 27,352,982	0.2%
3.06	NAIC-6		\$ 24,355,460	0.2%

<u>Preferred Stocks</u>				
3.07	P/RP-1		\$ -	0.0%
3.08	P/RP-2		\$ -	0.0%
3.09	P/RP-3		\$ -	0.0%
3.10	P/RP-4		\$ -	0.0%
3.11	P/RP-5		\$ -	0.0%
3.12	P/RP-6		\$ -	0.0%

4. Assets held in foreign investments:

4.01	Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?			No
4.02	Total admitted assets held in foreign investments		\$ 485,696,398	3.42%
4.03	Foreign-currency-denominated investments		\$ 34,443,394	0.24%
4.04	Insurance liabilities denominated in that same foreign currency		\$ -	0.00%

If response to 4.01 above is yes, responses are not required for interrogatories 5-10.

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

5.01	Countries Rated NAIC-1	\$	483,800,953	3.40%
5.02	Countries Rated NAIC-2	\$	1,018,684	0.01%
5.03	Countries Rated NAIC-3 or below	\$	876,761	0.01%

6. Largest foreign investment exposures by country, categorized by NAIC sovereign rating:

Countries rated NAIC-1				
6.01	UNITED KINGDOM	\$	141,785,880	1.00%
6.02	NETHERLANDS	\$	86,369,105	0.61%
Countries rated NAIC-2				
6.03	PANAMA	\$	1,018,684	0.01%
Countries rated NAIC-3 or lower				
6.05	Marshall Islands	\$	876,761	0.01%

**ANNUAL STATEMENT FOR THE YEAR 2019 OF THE SENTRY INSURANCE A MUTUAL COMPANY** Module 2

7. Aggregate unhedged foreign currency exposure: \$34,443,394

8. Aggregate unhedged foreign currency exposure categorized by the country's NAIC sovereign rating:

Countries Rated NAIC-1	\$	34,443,394	0.24%
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9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating:

Countries rated NAIC 1			
UNITED KINGDOM	\$	22,635,897	0.16%
SWITZERLAND	\$	11,807,498	0.08%

10. Ten largest sovereign (i.e. non-governmental) foreign issues:

	<u>Issuer</u>		<u>NAIC Rating</u>		
10.01	SIEMENS		1	\$	36,765,679
10.02	RECKITT BENCKISER		1	\$	32,013,342
10.03	EQUINOR		1	\$	24,451,064
10.04	TOTAL CAPITAL		1	\$	23,610,968
10.05	ASTRAZENECA		1	\$	20,383,716
10.06	AIR LIQUIDE		1	\$	18,767,896
10.07	SHELL INTERNATIONAL		1	\$	16,622,230
10.08	GLAXOSMITHKLINE		1	\$	16,421,433
10.09	GE CAPITAL INTL FUNDING		1	\$	16,299,435
10.10	SCHLUMBERGER		1	\$	15,287,214

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure.

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? If response to 11.01 is yes, detail not required for the remainder of Interrogatory 11.				Yes
11.02 Total admitted assets held in Canadian Investments		\$	321,064,387.46	2.26%
11.03 Canadian-currency-denominated investments		\$	38,199,386.47	
11.04 Canadian-denominated insurance liabilities				
11.05 Unhedged Canadian currency exposure				

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?				Yes
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If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

13. Amounts and percentages of admitted assets held in the largest 10 equity interests:

13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?		2,702,784,536.68		No
--	--	------------------	--	----

If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

			<u>Name of Issuer</u>		
13.02	APPLE INC	\$		67,808,190	0.5%
13.03	MICROSOFT CORP	\$		66,571,951	0.5%
13.04	ALPHABET INC	\$		45,613,000	0.3%
13.05	AMAZON.COM INC	\$		43,788,264	0.3%
13.06	FACEBOOK INC CLASS A	\$		29,266,187	0.2%
13.07	GLOBAL INFRASTRUCTURE II-A1 LP	\$		28,206,003	0.2%
13.08	ADVENT INTERNATIONAL GPE VIII	\$		27,643,717	0.2%
13.09	JP MORGAN CHASE & CO	\$		26,357,194	0.2%
13.10	BERKSHIRE HATHAWAY INC-CL B	\$		26,327,907	0.2%
13.11	FRANCISCO PARTNERS IV LP	\$		24,606,183	0.2%

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?				No
14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities		\$	849,261,930	6.0%
Largest three investments held in nonaffiliated, privately placed equities				
14.03	ADVENT INTERNATIONAL GPE VIII	\$	27,643,717	0.2%
14.04	FRANCISCO PARTNERS IV LP	\$	24,606,183	0.2%
14.05	CROSSLINK VENTURES VII LP	\$	23,425,880	0.2%

ANNUAL STATEMENT FOR THE YEAR 2019 OF THE SENTRY INSURANCE A MUTUAL COMPANY Schedule 2

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:			
15.01	Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets?		Yes
	If response to 15.01 is yes, responses are not required for the remainder of Interrogatory 15.		
16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:			
16.01	Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets?		N/A
	If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.		
17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:			
			None
18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:			
18.01	Are assets held in real estate reported in less than 2.5% of the reporting entity's total admitted assets?		Yes
	If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.		
19. Report the amounts and percentages of potential exposure for Mezzanine real estate loans.			
			N/A
20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:			
20.01	Securities lending agreements (do not include assets held as collateral for such transactions)	\$ -	0.0%
20.02	Repurchase agreements	\$ -	0.0%
20.03	Reverse repurchase agreements	\$ -	0.0%
20.04	Dollar repurchase agreements	\$ -	0.0%
20.05	Dollar reverse repurchase agreements	\$ -	0.0%
21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:			
21.01	Hedging	\$ -	0.0%
21.02	Income generation	\$ -	0.0%
21.03	Other	\$ -	0.0%
22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:			
22.01	Hedging	\$ -	0.0%
22.02	Income generation	\$ -	0.0%
22.03	Replications	\$ -	0.0%
22.04	Other	\$ -	0.0%
23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:			
23.01	Hedging	\$ -	0.0%
23.02	Income generation	\$ -	0.0%
23.03	Replications	\$ -	0.0%
23.04	Other	\$ -	0.0%

See independent auditors' report on supplementary information.

**Sentry Insurance a Mutual Company and Subsidiaries**  
**Supplemental Schedule of Reinsurance Disclosures**  
**December 31, 2019**

- 1 Has this reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g. a deductible, a loss ratio corridor, a loss ratio cap, an aggregate limit or any similar provisions)? Yes
- 2 If yes to item 1 above, indicate the number of reinsurance contracts containing such provisions: 5
- 3 If yes to item 1 above, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)? Yes
- 4 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results: No
- a. A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
  - b. A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
  - c. Aggregate stop loss reinsurance coverage;
  - d. A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;
  - e. A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
  - f. Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.
- 5 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where: No
- a. The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
  - b. Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract.
- 6 If yes to items 4 or 5 above, please provide the following information for each reinsurance contract: N/A
- a. A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting items 4 or 5;
  - b. A brief discussion of management's principal objectives in entering into the reinsurance contract including the economic purpose to be achieved; and
  - c. The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income.
- 7 Except for transactions meeting the requirements of paragraph 32 of SSAP No. 62R, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either: No
- a. Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or
  - b. Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?
- 8 If yes to item 7 above, explain why the contract(s) is (are) treated differently for GAAP and SAP. N/A

See independent auditors' report on supplementary information.